

084180

JPRS-CEA-85-007

25 January 1985

China Report

ECONOMIC AFFAIRS

DISTRIBUTION STATEMENT A

Approved for public release
Distribution Unlimited

19980729 116

DTIC QUALITY INSPECTED 4

FBIS

FOREIGN BROADCAST INFORMATION SERVICE

REPRODUCED BY
NATIONAL TECHNICAL
INFORMATION SERVICE
U.S. DEPARTMENT OF COMMERCE
SPRINGFIELD, VA. 22161

Reproduced From
Best Available Copy

4
140
A07

NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

25 January 1985

CHINA REPORT

ECONOMIC AFFAIRS

CONTENTS

PEOPLE'S REPUBLIC OF CHINA

NATIONAL POLICY AND ISSUES

Wan Li on Town, Township Enterprises (JINGJI RIBAO, 3 Dec 84).....	1
GUANGMING RIBAO on Socialist Political Economy (Wang Zhuo; GUANGMING RIBAO, 9 Dec 84).....	9
GUANGMING RIBAO on Planned Commodity Economy (Hu Naiwu; GUANGMING RIBAO, Dec 84).....	14
GUANGMING RIBAO on Surplus Value, Scientific Socialism (Wang Xinlong; GUANGMING RIBAO, 10 Dec 84).....	19
Briefs BEIJING REVIEW Publication Business Section	23

ECONOMIC DEVELOPMENT ZONES

Survey of 14 Coastal Cities Open to Foreign Trade (GUANGMING RIBAO, various dates).....	24
Editorial Note Dalian, by Sun Jun Qinhuangdao, by Jiang Wenxiang Tianjin, by Wang Lihua Yantai, by Qi Guorui Qingdao, by Cai Xiaobin Lianyungang, by Fang Tongbiao Nantong, by Yang Kaimin, Bao Rongning Shanghai, by Xie Jun	

Ningbo, by Ma Guoxing	
Wenzhou, by Ye Hui	
Fuzhou, by Bai Jingzhao	
Guangzhou, by Peng Zhouxian	
Zhanjiang, by Peng Zhouxian	
Beihai, by Guo Tinggong	
Hainan, by Peng Zhouxian, Liu Zhida	
Anhui Governor on Shanghai Economic Zone (He Wannan; JIEFANG RIBAO, 18 Dec 84).....	49
Country To Improve Telecommunications in Special Zones, Open Cities (ZHONGGUO XINWEN SHE, 2 Jan 85).....	51
ECONOMIC MANAGEMENT	
JINGJI GUANLI on Reform of Collective Enterprises (Xiao Weixiang; JINGJI GUANLI, No 10, 5 Oct 84).....	53
JINGJI GUANLI on System of Inviting Tenders (Li Shenying; JINGJI GUANLI, No 10, 5 Oct 84).....	60
FINANCE AND BANKING	
RENMIN RIBAO Commentary on Treasury Bond Issuing Measures (RENMIN RIBAO, 19 Dec 84).....	66
Reform Requires Rational Pricing System (Gui Shiyong; JINGJI RIBAO, 21 Dec 84).....	67
State Council Decision on Construction Loans (XINHUA, 22 Dec 84).....	71
Country Absorbs Foreign Funds To Develop Agriculture (XINHUA Domestic Service, 22 Dec 84).....	72
MINERAL RESOURCES	
Briefs	
Mineral Deposits in Guangxi	74
INDUSTRY	
Briefs	
Shandong 2D-Light-Industry Production Improvement	75
DOMESTIC TRADE	
Retail Sales Increase Markedly in 1984 (Beijing Domestic Service, 22 Dec 84).....	76

FOREIGN TRADE AND INVESTMENT

- Bank of China's Key Role in Joint Ventures Described
(Zhang Bingwen; GUOJI MAOYI, No 5, 27 May 84)..... 77

SPECIAL ECONOMIC ZONES

- RENMIN RIBAO Discusses Developing Special Zones
(Qu Qinglin; RENMIN RIBAO, 29 Dec 84)..... 81

TRANSPORTATION

- Serious Traffic Congestion on Henan's Huang He Bridge
(Henan Provincial Service, 22 Dec 84)..... 83

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

- Change in U.S. Third World Debt Policy Limited
(Ke Juhan, et al.; SHIJIE JINGJI, No 10, 10 Oct 84)..... 84

HONG KONG ECONOMIC TRENDS

- Finance Department Raises Estimate for GNP Growth
(WEN WEI PO, 15 Sep 84)..... 93

- Hong Kong's Economy Discussed
(Xu Dixin; GANG-AO JINGJI, No 3-4, 1984)..... 95

- Discourse on Making Use of Hong Kong
(Gu Nianliang; GANG-AO JINGJI, No 3-4, 1984)..... 101

- Basic Factors for Economic Development of Hong Kong
(Yuan Shibang; GANG-AO JINGJI, No 3-4, 1984)..... 108

- Main Features of Hong Kong as World Financial Center Outlined
(Jin Hongfan; GANG-AO JINGJI, No 3-4, 1984)..... 117

- Hong Kong's Prosperity and Liberal Economic Policy
(Huang Biaoxing; GANG-AO JINGJI, No 3-4, 1984)..... 124

- Foreign Investment in Hong Kong
(Zhang Zuoqian; GANG-AO JINGJI, No 3-4, 1984)..... 130

NATIONAL POLICY AND ISSUES

WAN LI ON TOWN, TOWNSHIP ENTERPRISES

HK190801 Beijing JINGJI RIBAO in Chinese 3 Dec 84 pp 1, 2

[Article: "Comrade Wan Li Talks About Developing Town, Township Enterprises"
--reprinted from NONGCUN GONGZUO TONGXUN [6593 2625 1562 0155 6639 6061]
No 12, 1984]

[Text] On 2 September 1984, Comrade Wan Li invited the principal leaders of Beijing Municipality to Zhongnanhai. He delivered an import speech at the meeting on developing town and township enterprises, as well as remolding urban industries. The excerpts of the speech are as follows:

On further developing town and township enterprises, we should grasp well and study several major problems at present.

We Must Promote Healthy Development Among Town and Township Enterprises in the Rural Areas

Over the past years, we have solved the problem of having insufficient food to eat and clothes to wear by introducing to the rural areas the system of contracted responsibilities with payment linked to output. Consequently, an abundance of surplus manpower has emerged in the rural areas and the peasants have begun to have some savings. In the wake of the assignment of central document No 1 to the lower level, the rural policy in recent years has been to adopt a more relaxed attitude. Though the development is not an even one, commodity production has, generally speaking, rapidly developed. In Gaobeidian, Hebei Province, a large leather handbag market has formed and provides jobs for tens of thousands of people. It has established a nationwide network, from production to the purchase of raw materials and the sale of products. For ordinary peasants who lack technology, to form such a large-scale commodity market is by no means an isolated phenomenon. Also in Hebei Province, Lixian County has in recent years formed a large-scale acrylic fiber market. At first, the county got some raw material from the Beijing chemical fiber plant and made knitting yarn and woolen sweaters for sale. Later, the business greatly developed. The county is engaging in both spinning and weaving. While producing popular goods of dependable quality, it also develops novel and modern products. It provides jobs for 100,000 people, with over 30,000 of them engaging in sales and information. There are many of these examples. For instance, there are 10 "specialized markets" in Wenzhou, Zhejiang; clusters of small factories in the rural areas of Jinjiang, Fujian; and so on.

Can diversified business operation on a household basis smash the trammels of the traditional thinking of "small and complete," continue to give play to its advantages while overcoming its weak points, utilize modern machinery and new technology, achieve specialized and socialized division of labor, and develop large-scale commodity production? This question has been answered through the peasants' implementations. Units which are responsible for ordering goods now face a large variety of products, cheap prices, sound reputation, and the flexible practice of delivery first, payment later. Hence, acute competition favorable to consumers has developed. In these localities, there are a large number of supply and marketing salesmen who serve commodity production by negotiating business contracts, purchasing raw materials, and selling products. It is due to this specialized and socialized division of labor that the production cost of products made in these localities continues to drop. Therefore, their prices also drop, as labor productivity is constantly improved. In just a few years' time, clusters of buildings have risen above the ground of these localities. The means on which they depend to attain prosperity is simply small commodities which are only worth several yuan, several jiao, several fen, or several li each. Who has created this miracle? There is no state investment, nor is there any plan designed by experts. It is the contract system which has liberated millions upon millions of peasants. It is the result of the conscious research and creative labor of millions upon millions of peasants, who have created this while implementing the development of rural commodity production.

[HK190803] Urban Industrial Enterprises Should Spread Out to the Rural Areas in an Organized and Orderly Manner and Establish a New Socialist Relationship Between Urban and Rural Areas

Industrial enterprises in urban Beijing should spread out to the rural areas in an organized and orderly manner, and be integrated with rural enterprises there, so that the larger urban enterprises can support the smaller rural enterprises, and obtain their assistance in return. When both sides supplement one another with their assistance in return; when both sides supplement one another with their strong points, they will become affluent together, their problem of scrambling for raw materials and the market can be resolved. A multilayer industrial structure, marked by a division of labor between urban and rural areas, will gradually take shape, and the population in urban Beijing can be brought under control, or even reduced. This is a measure of strategic significance in establishing a new socialist relationship between urban and rural areas, and for narrowing the three great differences in China. We should greatly change the face of urban and rural areas in Beijing. In order to do this, we must spread in an organized and orderly manner some industrial projects to the rural areas. First, we must gradually spread to the rural areas the industry which causes nuisances to neighboring residents in lanes, so that the surplus manpower in the rural areas can engage in this small-scale industrial production. I agree with the so-called "road of Bailan," which is the practice of the Beijing washing machine factory. This factory spreads out the production of "Bailan" brand washing machine's spare parts, accounting for 98 percent, to the rural areas. Consequently, the output volume of this factory has increased by 30 times within 5 years' time, while its profits have increased by 50 times. It is said that Lixian County also engages in ballbearing production, which is the county's best product,

in addition to the acrylic fibers market. A large number of people in the county are experts in this field and the quality is also good. Therefore, the product is sold nationwide. Instead of building large plants for ball-bearing production, the county spreads it out to the rural areas. But both the quality and volume can be maintained at a high level. Since this practice requires small investment but brings about a large output volume, it helps invigorate local industries and develop agriculture; helps develop small towns and townships and ease problems caused by population growth in big cities. Light industrial, textile, food and even machine and some spare part production can adopt this method and spread the production work out to the rural areas. The urban areas should be integrated with the rural areas; and the urban industrial enterprises should also be integrated with those in towns and townships. The population in suburban Beijing is 3.88 million, while there is over 6 million mu of farmland. If we mechanize agriculture, we will only need 60,000 to 80,000 people to engage in planting, that is 100 mu per head. The situation in the past was that "30 mu of farmland for each cow, and the housewives and children heat their brick beds." If we have a tractor for each 100 mu of farmland in addition to other agricultural machinery, the surplus manpower can engage in the small-scale industries spread out from the urban areas.

To modernize China the Chinese way, we should not mechanically copy foreign examples. Modern industries in the developed capitalist countries are developed under their social conditions in which there is abundant capital but a shortage of manpower. Therefore, many of their practices do not conform to China's conditions in which there is a shortage of capital but abundant manpower. Through practice, many developing countries have also gradually come to understand that to develop urban industries in a one-sided way often damages the environment, brings about a blind flow of rural population into the big cities and the growth of the unemployed population, and gives rise to a series of economic and social problems. Therefore, to integrate urban and rural areas, as we advocate, we should develop thousands upon thousands of working areas for all types of operations in the vast rural areas, within the shortest possible time, so that cheap and useful new technologies can flow, and be regrouped within a much larger scope, to form new productive forces. The urban industrial enterprises' practice of spreading out to small factories in towns and townships has several advantages: first, it yields direct benefits, promotes initiative in operation, and brings about a strong sense of production responsibility. Second, as the small-scale operation is in the proximity of raw materials and markets, only a few factory plants, dormitories, canteens, warehouses and so on need to be built in addition to investing on the necessary equipment and raw material. Third, the introduction of flexible working schedules requires smaller administrative staffs and lower costs, but yields high labor productivity. Fourth, flexible benefits and wages mean smaller fixed capital and quick repayment of investment, for "small boats can change course quickly." Fifth, the development of both medium- and small-scale industries help form a rational distribution of industry.

[HK190805] In the wake of perfecting the system of contracted responsibilities with payment linked to output on a household basis in the rural areas, labor

productivity has greatly improved, and a large amount of surplus manpower has emerged. Climbing up the mountains and going down the water, these people strive to open up new production domains and develop diversified business operations other than agriculture. However, there is no way that the peasants can get rich without engaging in processing industry or commerce. It is simply impossible for people to attain a comparatively well-off level with only 1 mu or so farmland per head! Is it possible for people to achieve a per capita income of \$800 by relying on the 1 mu or so of farmland? It is not possible, unless the farmland yields gold from potatoes. Urban Beijing is getting more and more crowded. On traffic accidents alone, there are about 500-600 cases per month. The bigger the city is, the more disadvantages are shown. It is the time for us to resolutely carry out reform. Our direction of reform has been clearly shown, that is to develop joint operations between urban and rural areas. Our goal has also been clearly pointed out, that is to form a rational industrial structure, to achieve a new technological revolution, to reduce the urban population, and to beautify the urban environment. Beijing should carry them out at an earlier time in a planned way. The city should study the general principles and general policies for their implementation. It might be better to change some small-scale state enterprises to collective ones. Your state-run commerce has carried out reform, state-run industry should also carry out reform. In Shunyi County, there is a commune-brigade run woolen textile factory, which has more than 800 production workers but only 1 factory head. On the other hand, there are over 200 workers and over 20 cadres not engaged in production in a state-run cotton textile factory. Hence, the economic results of these two factories represent a world of difference. Therefore, in developing industry, I advocate the pursuance of "the road of Bailan" because this costs little but brings great results when developing industry and city construction. Of course, even the best method should not be carried out indiscriminately. Instead, we should work out suitable measures in the light of actual conditions.

Strive To Achieve Simultaneous Development in Urban and Rural Areas

The key link of the whole economic structural reform that focuses on the urban areas is to fully mobilize the vitality of enterprises and the initiative of the people. "The road of Bailan" is of vital significance to Beijing. It also inspires us in simultaneously developing the large and medium-scale cities and the rural areas throughout the country, as well as removing the obstacles which hinder the urban and rural areas carrying out exchange with each other. We should strengthen our investigation and study in this area. We should also take the overall situation into account, strengthen our leadership, and consciously do well in various services, particularly transportation, information and technical services. We should also send technicians to the rural areas so as to promote joint economic operational between the urban and rural areas; so that we can make this great unfolding trend develop in a healthy way. You should do this as soon as you have straightened out your thinking and have realized that the situation is ripe.

There is a good phenomenon this year: when asked where they preferred to be assigned a job, many of the graduates preferred to be assigned to specialized households rather than state-run factories. In the specialized households,

their monthly wages are over 100 yuan, and the amount is increased in the second year if the graduates do the job well. In suburban Beijing, there are hundreds of thousands of construction workers employed on contract terms. This is also a good phenomenon. I hope that the majority of the city's construction workers will also become employed on contract terms. It would be better if these workers were attracted to the rural areas after retirement, and become masters of rural construction teams. This is because the rural areas are in bad need of them at present. It would be even better if these workers go to the rural areas with their wives and children. When qualified personnel go down to the rural areas and build some good towns and townships, work sheds or structures that violate regulations will not be found all over in Beijing. In this way there will be fewer problems for you. There should be highways and telephone lines radiating in all directions from Beijing. In this way there will be fewer problems for you. There should be highways and telephone lines radiating in all directions from Beijing. This task is of vital importance to whether or not Beijing can become the first city to achieve the level at which the urban areas integrate with the rural areas and society develops simultaneously. [HK190807] Of course, we need a rather long time to eliminate the differences between urban and rural areas. But our ideology and our practices are heading in this direction. Now, I want to discuss a problem with you, and to see whether or not you agree with me. Let us do it this way if you agree, but I think this is the right way. The situation will greatly change if we carry out the task for 5 years. It is absolutely not easy to open up this road, nor is it easy to pursue the practice of socialism with Chinese characteristics. The large cities of capitalist countries developed on the basis of the peasants going bankrupt. Now, the capitalist countries also realize that this practice has become impractical. The big cities are getting more crowded and the environment is polluted. Therefore, these large and medium-scale cities develop something on a small-scale, that is, the knowledge of beauty. Hence, the time of the bigger the better has begun to decline. When we advocate people to leave their homestead but not their native places, and to enter into factories but not those in towns, our main point is to not enter into the large cities. We must consciously lead the peasants to open up this road at an early time, to consciously sum up their experience, and to get a deeper theoretical understanding. If the city CPC committee leads its economic work in this way, it will quickly bring about great development.

What Are the Prospects of Developing Town and Township Enterprises? The Key Rests With the Leadership and Importation of Qualified Personnel

Recently, my party and I went to Yuanping County, Shanxi, where 9 out of 11 leading cadres were college graduates. Comparatively speaking, the number of intellectuals in the leading group of the county CPC committee was quite large. These group members have a broader field of vision, are resourceful, and are good at running businesses. In a year's time, the county as a whole raised 35 million yuan of funds and imported a large amount of qualified technical personnel from the developed areas. The county engaged in agriculture, industry and commerce simultaneously, and soon scored successes. For example, a town in the county was good at producing apricots in large quantities and with good quality. In the past, one could buy several jin

with just one jiao. Still, a large amount of apricots often rotted in stock. But this leading group paid close attention to economic information. After the group knew that the market in Beijing was running short of preserved fruit, it hired a retired master, with a monthly wage amount of 500 yuan, who came from Beijing and specialized in making preserved apricot. Furthermore, it ran a factory to produce the goods which were all put on the market in Beijing. Therefore, the group achieved the results of small investment, quick returns, and large output volume with good quality. It earned 300,000 yuan from this in just a year's time. Now, you can see that qualified personnel are very valuable. As a matter of fact, the simple practice of hiring a competent person to run a factory, by bringing wealth to a village or a town, can smash the trammel of "getting raw material on the spot, processing on the spot, and selling on the spot," that is, the "three on-the-spots." This is a very good phenomenon. We should make the best use of the situation and further its development. Once this has been done well, it will help develop the urban and rural economies, as well as eliminate the differences between urban and rural areas and control the population growth in large cities. To spread some urban industrial enterprises to rural areas and to allow some qualified personnel to flow from urban areas to rural areas can further enliven the urban and rural economies, as well as put an end to the situation in which the rural areas are "enlivened" but the urban areas are "deathly" quiet.

Once the town and township enterprises have developed, there will be competition among them. This is good for us because competition can promote the development of production, as well as the advancement of technology and administration. Eventually, some enterprises will be eliminated in the competition. But there is nothing bad in that. So long as the enterprises set high standards, insure good quality, reduce production costs and improve economic results, they can stand firmly and grow stronger amid competition.

[HK190809] We Should Mete Out Big Bonuses to Anyone Who Makes Great Contributions

I have heard that you have given a 10,000 yuan bonus to Comrade Hu Daofen, who specializes in growing wheat. I agree with this practice. After all, this kind of person deserves bonuses of more than 10,000 yuan. I see nothing bad if we give them an automobile each! We must mete out bonuses this time to our olympic gold medal winners. In any case, it is an impractical policy that we do not allow some capable people in the urban areas to work more so as to receive more. The reason that the rural areas have developed rapidly is because we advocate letting some peasants get rich first. Therefore, they have gone all out to attain prosperity. At the beginning, I faced a problem in Anhui, that was, how to deal with the households that produced 10,000 jin of grain and earned 10,000 yuan, in the light of implementing the all-round contract system? I said: Since the contract has been signed, there is nothing that I can do to prevent them from taking the contracted things away, even though the contract involves a golden doll. And nobody can interfere. Since then, the peasants can put their heart at ease, and thus a good situation has developed. At that time, many people had thought of taking something away from them, which is an impractical method.

We Should Open to Both the Outside World and the Lower Level

I have recently inspected the coal mines in Shanxi, which has greatly inspired me. In the past, we had to spend 8 years' time on building a medium-scale coalpit. But the town and township coal mines have been rapidly developed after we adopted a relaxed attitude and allowed the peasants to undertake the work. The present output volume of the mines is 52 million tons. Furthermore, this amount of coal is produced under the circumstances that the maximum limit is fixed. The small coalpits run by some brigades have multiplied their output value in a few years' time; and each household has built itself a 2-story house. When developing coal mines, we must allow the state, communes and brigades, and peasants to take part in it at the same time, and allow the peasants to undertake more. An individual percent can produce 3.5 tons of coal each day, which is more than that of large coal mines run by the state. Some people buy the peasants' coal to accomplish their job, or even for their daily use. This is because the price of their coal is cheaper than that of state mines. This is called "earning more than the state's level" in Shanxi. I think that it is a very good method to allow the peasants to run more mines. On the other hand, our task is to trust the peasants with the law of protecting mineral products and natural resources, and to educate them on not doing the work arbitrarily. So long as the peasants observe this law, do no great harm to the natural resources, and do well in safety work, we should let them go all out to do the work. After all, the state can allocate the investment which is saved on developing mines to building roads. Through this method, the peasants can get rich quickly. But they are still peasants after getting rich, as they will spend money on buying chemical fertilizer and tractors, thereby doing well in tillage. And what is bad about this? What do the peasants of the province want at present? They want color television sets and Honey brand fowing machines. This thus provides us a new market for developing our light industry.

Over the past, we did not do well in our work and dampened the people's initiative. It is not the socialist system which is to blame. Instead, this is because we dampened their initiative. Now, it is widely understood that the aim of implementing reform is to change the "deathly, sluggish and impoverished" situation into a "lively, industrious, and rich" one. When developing industry, we must open to two aspects, that is the outside world, thereby importing capital, technology, and management experience; and the lower level, thereby spreading out some small industrial enterprises and spare parts production to towns and townships. First of all, you should adopt an open policy toward the suburban area, then toward Hebei, Nei Monggol, and Shanxi, and should take "the road of Bailan." Therefore, the economic development will take a more rapid pace.

[HK190811] Mountainous Areas Should Not "Take Grain as the Key Link"

We should reduce the quota of grain delivery for suburban Beijing, so that there is room for market readjustment in the area. What is the use of growing grain in gullies? Therefore we should not assign grain production quotas to these areas. The production potential of vast mountainous areas is in raising cattle and sheep, growing fruit, planting trees and grass. In the

past, we indiscriminately asked this area to "take grain as the key link." This should be stopped from now on. Instead, we should take suitable measures in the light of actual conditions, and overcome the shortcomings with the strong points. We should take a relaxed attitude toward the authority for utilizing the natural resources of mountainous areas, and should allow people to substitute natural resources, forest and sideline products from mountainous areas for grain.

We Should Attach Great Importance to Qualified Personnel, Building Leading Groups

Qualified personnel is a very important factor for the rural areas. Some localities begin to get rich through shouting slogans of prosperity and after hiring some capable people from cities. If a village employs several experts or establishes regular cooperation regulations with them, the villages will quickly get rich. You should seriously implement and publicize the work once you have straightened out your thinking about this. So long as there are 200 million people attaining prosperity first, the people of China will have faith in socialism. This is what we must do. However, there is one thing that we should supervise. That is, we must check that the urban and rural areas do not employ qualified personnel from other places; that Beijing sends the qualified personnel to other places; and that they flow rationally from the urban areas to the rural ones.

Beijing's new leading groups are on the right side of 60. We should ask the old comrades who are over 60 to hand over their work to the younger ones. Furthermore, the new leading groups must have the pioneering spirit when handling things. They must by no means carry out reform in a conservative way just because of their young age. On the issue of spreading urban industrial enterprises to the rural areas in an organized and orderly manner, as well as gradually establishing a multilayer industrial structure, marked by division of labor between urban and rural areas, this is a great problem that is of vital importance to building socialism with Chinese characteristics. You should carry the work out immediately once you have really straightened out your thinking.

CSO: 4006/211

NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON SOCIALIST POLITICAL ECONOMY

HK160231 Beijing GUANGMING RIBAO in Chinese 9 Dec 84 p 3

[Article by Wang Zhuo [3769 3820]: "A New Breakthrough in Socialist Political Economy"]

[Text] "The CPC Central Committee's Decision on Reform of the Economic Structure" has, combining theory with practice, provided an answer to the controversial question of nearly half a century about how to correctly treat the relations between planned economy and commodity economy. The "Decision" is not just a programmatic document on our economic reform. More important, it has theoretically provided a new breakthrough of overall significance for the Chinese version of political economy and opened up a wide area for the study of socialist political economy. This is of far-reaching historical significance, as far as our theorists in the economic field are concerned.

What is socialist economy? This is a question of theory and practice that must first be answered by students of socialist political economy. From the 1930's to the 1980's, this has been an unsettled problem of ceaseless debate. Endless debate has invariably focused on three points of view: 1) Socialist economy being planned economy, and planned economy being inevitably practiced to the exclusion of commodity economy; 2) socialist economy being commodity economy, and commodity economy being inevitably developed to the exclusion of planned economy; and 3) socialist economy being commodity production plan planned economy and not product production planned economy. I advocate unity between commodity production and planned economy.

The "Decision" pointed out that socialist society practicing planned economy on the basis of ownership of the means of production must first break away from the traditional concept of setting planned economy against commodity economy and clearly understand that socialist planned economy that must consciously base itself on and apply the laws of value is planned commodity economy based on public ownership. This is to say that socialist economy represents unity between planned economy and commodity economy. People would ask: On what basis is unity between planned economy and commodity economy to be effected? On this important question of theory, the "Decision" gave a clear and profound explanation: 1) "The full development of commodity economy is the stage of social economic development that cannot be passed over and is a prerequisite for the realization of the modernization of our economy."

2) "Even given socialist commodity economy, its comprehensive development is also likely to generate certain kinds of blindness. There must be planned guidance, regulation and administrative management. This can be achieved under socialist conditions." 3) "The introduction of planned economy and the application of the laws of value in developing commodity economy do not exclude each other and are united. It is wrong to set them against each other."

As things now stand, in studying the "Decision," we must properly study the theory of unity between planned economy and commodity economy. This is the theoretical mainstay of the economic reform and also a major theoretical mainstay of the Chinese version of political economy.

Why should it be said that commodity economy and planned economy are united?

The general manifestations of commodity economy or commodity production as a form of social production are: The products produced by people in social production are linked up in the form of commodities exchange. Such a linkup reveals the economic relations between the producers concerned on the basis of social division of labor. Therefore, this in itself is a concrete form of production relations. What commodity production has in common is the production of value and the exchange of commodity value on the basis of the principle of exchange at equal value, enabling producers to derive the respective use value needed. Just as Marx said: "The exchange of products as commodities is a certain form of exchange of labor and dependence of each person's labor on others'." ("Collected Works of Marx and Engels," Vol 26, p 139) "The commodity form and the value relations between labor and products realized through it,... This is only people's own given social relations." ("Collected Works of Marx and Engels," Vol 23, p 89)

But if we only understand the general nature of commodity economy, we still cannot really understand commodity economy. Still less can we answer the question of why commodity economy can be united with planned economy. To really understand the question why commodity economy can be united with planned economy, we must put emphasis on studying the peculiarities of commodity economy. We can analyze the peculiarities of commodity economy at three levels.

[HK160233] First, commodity economy is different from self-supporting production. Commodity economy or commodity production is a form of social production. It calls for social regulation. Self-supporting production proceeds within a narrow scope. It does not call for social regulation. So it can only be united with natural economy and cannot be united with market economy and, still less, with planned economy. Some people arbitrarily lump self-supporting production with planned economy, claiming that the economy now practiced in our country is self-supporting production planned economy. They hold that the main contradiction in our economic reform is a matter of overthrowing the idea of natural economy, and not the idea of product economy. In my opinion, in production, there exists the problem of transforming a small segment of natural economy into commodity economy. But it is theoretically a problem of overthrowing the idea of product economy. This is because

self-supporting production natural economy does not provide the factor of unity with planned economy. Therefore, the fixed pattern of planned economy, long practiced in our country, is not self-supporting production planned economy, and is instead a pattern of product production planned economy passing over the stage of historical development, practiced under the bonds of "leftist" thinking. Thus, without overthrowing the idea of product economy, we cannot be emancipated from the bonds of "leftist" thinking and cannot properly pave the way for the development of commodity economy. This is a problem of extremely great importance on the theoretical front in reforming the economic system.

Actually, both planned economy and market economy call for social regulation. The difference is that the former involves conscious social regulation and the latter spontaneous social regulation. But self-supporting production does not need social regulation, no matter what kind. Nor does it provide conditions for such social regulation. This is because typical self-supporting production is not social production, and is instead a matter of self-regulation based on the sex and age of workers and seasonal changes. There is no need for spontaneous social regulation. Nor can conscious social regulation be practiced.

Second, commodity economy is different from product economy. Commodity economy must establish, through an indirect form of value, people's economic relations in social production. Therefore, the laws of value play a regulating role in social production and circulation through regulating the relations of economic interests between people. The only difference is that under the system of planned economy, the laws of value are correctly understood by people and consciously applied. Under the system of market economy, the laws of value control people as an alien force. Through practicing direct social labor, direct social production and direct distribution not based on the form of value, product economy, or the form of product production, has no need for a market. Market economy does not exist. Therefore, product economy must be united with planned economy, forming product production planned economy. It cannot be united with market economy, forming product production market economy.

Third, the social nature of commodity economy varies with different social economic patterns. Commodity economy can exist given extremely different social economic patterns. This shows the general nature of commodity economy. Different social economic patterns also determine the different social nature of commodity economy. This shows the peculiar nature of commodity economy. We must understand the general nature of commodity economy, and more important, the peculiar nature of commodity economy. Here are three points that distinguish socialist commodity production from commodity production marked by any previous social economic pattern: 1) Socialist commodity production is social production. It is a universal pattern of production at the socialist stage. This is different from simple commodity production in natural economy (including the last stage of primitive communist society, slave society and feudal society). 2) Socialist production is based on the socialist system of public ownership of the means of production. Therefore, the economic nature of the system of public ownership in socialist production is different from that of

the system of private ownership in previous commodity production. The relations of exploitation do not exist. Labor is not transformed into commodities. 3) Socialist commodity production is commodity production based on public ownership. It is also social commodity production. The combination of the two inevitably leads to the practice of the system of planned economy. Therefore, socialist commodity production is commodity production under the system of planned economy, or commodity economy, or commodity economy with planned development. It enables socialist commodity production to fundamentally do away with the anarchy of capitalist social commodity production and cyclical economic crises. This is different from simple commodity production in natural economy, and especially different from commodity production in capitalist market economy.

[HK160235] By correctly understanding the peculiar nature of commodity economy, we can avoid erasing the different social economic nature of commodity economy in different social economic patterns, because of the general nature of commodity economy. To distinguish socialist from capitalist commodity economy is a matter of great significance. Socialist commodity economy based on public ownership of the means of production does not involve the transformation of labor into commodities. Therefore, the energetic development of commodity economy by the countryside will not lead to polarization. The energetic development of commodity economy by cities will also not lead to the restoration of the capitalist system of exploitation. Socialist commodity economy is commodity economy with planned development. The energetic development of commodity economy will not lead to anarchy and cyclical economic crises typical of capitalist commodity economy. Only by clearly distinguishing between these two kinds of commodity economy with their different social nature, can we overthrow the traditional concept of setting commodity economy against planned economy, by combining theory and practice.

What kind of planned economy can be united with commodity economy? To answer this question, we must also analyze the general and peculiar nature of planned economy.

Both socialist society and communist society practice planned economy based on public ownership of the means of production. This refers to the general nature of planned economy. To affirm this is of great importance. It enables us to correctly understand the organic relations between socialist economy and communist social economy.

But socialist society is the initial stage of development of communist society. Therefore, in the two stages of historical development in the communist movement, there exist two different patterns of planned economy. This refers to the peculiar nature of planned economy. To understand the peculiar nature of planned economy is of great significance, in regard to theory and practice. The main indicator that distinguishes the pattern of socialist planned economy from the pattern of communist planned economy is that as far as planned economy as a system for economic regulation is concerned, the target of regulation for communist planned economy is product economy (product production; the same meaning applies in following references), while the target of regulation for socialist planned economy is commodity economy (commodity production; the same

meaning applies in following references). It is especially important to understand the peculiar nature of planned economy. This helps us to correctly distinguish between socialist planned economy and communist planned economy.

What is socialist planned economy? Socialist planned economy is planned economy consciously basing itself upon and applying the relations of commodities, the laws of value, and the role of the market. This is to say that socialist society can only practice commodity production planned economy and cannot introduce product production planned economy only suited for communist society.

What is communist social planned economy? Communist society means planned economy that practices direct social labor, direct social production and direct distribution, or planned economy that excludes commodities, value, the laws of value, and the role of the market.

If we only recognize the general nature of planned economy and refuse to recognize the peculiar nature of planned economy, we will naturally only recognize unity between planned economy and product economy and will not recognize unity between planned economy and commodity economy. As far as ways of thinking are concerned, the origin of the traditional concept of setting planned economy against commodity economy that has for a long period of time inhibited people's thinking lies in only recognizing the general nature of planned economy and not recognizing the peculiar nature of planned economy. Therefore, we cannot correctly understand what kind of planned economy socialist planned economy is like. Nor can we find a way out for reforming the fixed pattern of a planning system. The "Decision" pointed out: "In reforming the planning system, we must first shatter the traditional concept of setting planned economy against commodity economy." This provides a theoretical guide for reforming the fixed planning system. It also means a new breakthrough in socialist political economy. It is a golden key with which to open the door to the Chinese version of political economy. The "Decision" is of extremely great theoretical and realistic significance.

CSO: 4006/211

NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON PLANNED COMMODITY ECONOMY

HK191403 Beijing GUANGMING RIBAO in Chinese 10 Dec 84 p 3

[Article by Hu Naiwu [5170 0035 2976]: "Planned Commodity Economy Is an Important Characteristic of Socialism"--passages within slantlines published in boldface]

[Text] The decision on reform of the economic structure adopted by the 3d Plenum of the 12th CPC Central Committee has advanced the very important theory that socialist planned economy is a planned commodity economy based on public ownership. This theory is the main thread running through the "Decision," and a fundamental theoretical basis for the reform of our country's economic structure and planning system. It has provided us with a key to a correct understanding of the spirit of the documents issued by the 3d Plenum of the 12th CPC Central Committee.

Over a long period of time in the past, a traditional concept deeply rooted in people's minds was that planned economy was only related to socialist public ownership, and that planned economy excluded, and was antagonistic to, commodity economy. The reason why such a concept could become a traditional concept and prevail for a long time was attributable to its historical and theoretical roots. Theoretically speaking, the planning for the production of the whole society could only originate from socialist public ownership, rather than from commodity economy. Commodity economy was instinctively linked with disorder in production. The decision adopted by the 3d Plenum of the 12th CPC Central Committee also points out that the extensive growth of a socialist commodity economy may also lead to a certain disorder in production. The abolition of commodity economy is a prerequisite for the formation of the Marxist theory on planned economy. Due to this understanding, in the past the economic structure and planning system of various socialist countries restricted and excluded commodity economy and law of value. Various defects occurring in this system such as the state exercising excessive and rigid control over enterprises, enterprises lacking vigor and vitality, and so forth were linked with the refusal to admit that socialist economy is still linked with commodity economy.

However, people have realized in practice that at the socialist stage, commodity economy should be vigorously developed rather than being limited. Collective enterprises are independent commodity producers and operators. In the

meantime, enterprises under ownership by the whole people are also relatively independent commodity producers and operators that are independent and responsible for their own profit and loss. Therefore, socialist economy is still a commodity economy. This has posed a question among the people: Under the condition of the extensive existence of commodity production and exchanges, how should a planned economy be practiced?

A definite answer to this question cannot be found in the works of Marx and Engels. The problem can only be solved by integrating Marx's basic principle with the actual conditions of the socialist stage. On the basis of summing up the experience in construction in our country and other socialist countries, the decision of the 3d Plenum of the 12th CPC Central Committee puts forth the theory of "planned commodity economy based on public ownership." This theory has correctly answered and solved this question. It is an important theoretical breakthrough, and marks a development of the Marxist theory on planned economy.

/How can planned economy be unified with commodity economy on the basis of public ownership?/ This question can be answered from the following two aspects:

1. Socialist commodity economy is a commodity economy based on public ownership, which is completely different from the capitalist market economy based on private ownership. Under the condition of public ownership, there are differences in economic interests among various socialist commodity producers, and a "distinction should be drawn between them." However, their fundamental and common interests coincide. Public ownership has decided that each and every producer and operator of socialist commodity can only seek his interest under the prerequisite of accepting the guidance of the state's planning and administration, and meeting the demand of the people. In other words, as commodity producers and operators, socialist enterprises may seek their own economic interest and profits. As economic units under public ownership, their own economic interest coincides with the common and overall interest of the state. Therefore, as a regulating center of the society, the state may adopt appropriate measures to bring the production and management of socialist enterprises into line with planned development.

[HK191405] 2. The law of value is a law governing commodity economy. As long as commodity economy exists, the law of value will play its regulating role. However, in a society under private ownership, the law of value can only play its role spontaneously, and people cannot make use of it consciously. The spontaneous regulating role of the law of value in the entire capitalist world will inevitably lead to disorder in production. Under the condition of socialist public ownership, people can consciously rely on and make use of the law of value, and utilize economic levers such as price, taxation, credit, and so on. Through the regulation of economic interests, the production and management of the enterprises will be brought into line with the general requirements of state planning. In this connection, it is allowable that the prices of some commodities in short supply, and which should be produced in large quantity, are higher than their value, and that lower taxes and interest rate are imposed on enterprises which produce them. In the meantime, these enterprises may

obtain loans on more favorable terms. In such a way, the enterprises concerned will make more profits and have their enthusiasm aroused for manufacturing such products. With regard to products in excessive supply, whose production should be limited, their prices should be lowered. Higher taxation and interest rates should be imposed on enterprises which produce them. In such a way, they will make less profit and thereby reduce the production of such products.

Therefore, on the basis of socialist public ownership, planned economy and commodity economy can coincide. Socialist planned economy is planned commodity economy. This is an important characteristic of the planned economy at the socialist stage.

/Why should we explain socialist planned economy as a "planned commodity economy," rather than a "planned economy which contains commodity economy?"/ We should admit that these two kinds of explanation are different. The emphasis of the first explanation is placed on the commodity economy, whereas the emphasis of the second explanation is placed on the planned economy. After comparing these two kinds of explanation, we find out that the first explanation, which is contained in the "Decision," is more accurate. Three reasons can be adduced in support of this opinion:

1. The main purpose in explaining that socialist planned economy is a "planned commodity economy" is to show that planned economy does not conflict with commodity economy. Not long ago, while meeting Japanese guests, Premier Zhao Ziyang said: The decision of the 3d Plenum of the 12th CPC Central Committee has enabled us to "clarify two concepts in both theory and practice." One of the concepts is: "Socialist planned economy does not conflict with commodity economy, and socialism should also develop commodities." The explanation of "planned commodity economy" has accurately shown the unity of socialist planned economy and commodity economy. If we explain socialist planned economy as "planned economy which contains commodity economy," it is difficult to demonstrate the unity of socialist planned economy and commodity economy. It is because this explanation only means that we carry out planned economy under the condition of the existence of commodity economy. Under such circumstances, we can carry out planned economy by adopting the method of restricting and expelling commodity economy, or by adopting the method of developing commodity economy. Therefore, this explanation is not accurate.

2. Explaining socialist planned economy as "planned commodity economy" not only accurately demonstrates the unity of socialist planned economy and commodity economy, but also shows the characteristics of socialist commodity economy which are different from those of capitalist commodity economy. Therefore, in accordance with the characteristics of socialist commodity economy, the above-mentioned explanation is accurate.

[HK191407] 3. Stressing that socialist economy is still commodity economy is important in both theory and practice. Theoretically speaking, just as Comrade Deng Xiaoping has pointed out: "The most fundamental task at the socialist stage is to develop productive forces." To develop social productive forces, we should vigorously develop commodity economy. It is because

full development of commodity economy is an indispensable stage of the development of social economy. Only by fully developing commodity economy can we modernize economy, socialize production, and fully reinvigorate enterprises. Therefore, socialism cannot be separated from commodity economy. Can we say that just like distribution according to work, commodity economy exists throughout the entire socialist stage? If this understanding is accepted, the formula for socialism should be: public ownership plus commodity economy plus distribution according to work. The characteristic of public ownership differentiates socialism from capitalism. The characteristics of commodity economy and distribution according to work differentiate the initial stage of communism from the advanced stage of communism. Therefore, stressing that socialist economy is still a commodity economy is of theoretical significance for correctly understanding socialism. Stressing that socialist economy is still a commodity economy is of practical significance also. According to this understanding, we may justly and vigorously develop socialist commodity economy. We will never regard socialism and commodity economy as two different things which conflict with and exclude each other. Therefore, we will not restrict and exclude commodity economy. Furthermore, only by basing the reform of our economic structure and planning system on the theory which stresses that socialist economy is a commodity economy can we invigorate enterprises, truly enliven economy, and establish a socialist economic system which is full of vigor and vitality. Only by so doing can we establish a planning system which consciously goes by and makes use of the law of value. Apart from that, stressing that socialist economy is still a commodity economy will help us prevent "leftist" mistakes in economic work. We all know that the concept which sets socialist economy against commodity economy is an important ideological reason attributable to the "leftist" mistakes in our economic work. During the period of the "Great Leap Forward" and the period of the "Great Cultural Revolution," due to the fact that we neglected commodity economy and the law of value, we severely dampened the enthusiasm of enterprises and laborers. As a result, our production dropped and fell back. We suffered a lot because of all this. Historical experiences have told us that commodity economy is indispensable to the development of social economy, and a stage which cannot be omitted. Otherwise, we will commit "leftist" mistakes.

/Will explaining socialist planned economy as a planned commodity economy lower the status of planned economy?/ Although the emphasis in explaining socialist planned economy in such a way is placed on commodity economy, it by no means belittles the importance of planned economy. The socialization of production and public ownership of the means of production are a prerequisite for the implementation of planned economy. The implementation of planned economy is an inevitable result of the deterioration resulting from the basic contradictions of capitalism. Part 4 of the decision of the 3d Plenum of the 12th CPC Central Committee explicitly points out: "Socialist society practices a planned economy on the basis of public ownership of the means of production. it can thus avoid the anarchy of production and cyclical crises characteristic of capitalist society." It adds: "This is one of the fundamental indicators of the superiority of a socialist economy over a capitalist economy." Since the founding of the people's republic, we have practiced planned economy, and achieved tremendous successes in this respect. In view of this, the "Decision" fully affirms and praises highly planned economy. The view that "planned commodity economy" means belittling planned economy is a complete misunderstanding.

[HK191409] While discussing the nature of the reform of the economic structure, the "Decision" points out: Reform of China's economic structure means reforming, on the premise of adherence to the socialist system, a series of inter-related links and aspects of the relations of production and the superstructure that are not suited to the development of the forces of production. As a form of self-improvement and development of the socialist system, this reform is to be carried out under party and government leadership in a planned, systematic, and methodical way. Planned economy is a basic economic system of socialism, and cannot be regarded as a method of economic management. Lenin repeatedly pointed out: "After replacing capitalism with socialism, we should follow a 'planned economic system.'" ("Complete Works of Lenin," Vol 10, p 407) In our party's important documents and our country's constitution, socialist planned economy is regarded as a basic economic system which is different from capitalist market economy. Therefore, while carrying out reform, we should not give up planned economy. Under the prerequisite of sticking to planned economy, we should reform the planning system which severely hampers the development of productive forces.

CSO: 4006/211

GUANGMING RIBAO ON SURPLUS VALUE, SCIENTIFIC SOCIALISM

HK200751 Beijing GUANGMING RIBAO in Chinese 10 Dec 84 p 3

[Article by Wang Xinlong [3769 2450 7893]: "The Relationship Between the Theory of Surplus Value and the Theory of Scientific Socialism"]

[Text] Historical materialism and the theory of surplus value are the theoretical bases of the theory of scientific socialism. In an article carried in a special column entitled "Scientific Socialism" in GUANGMING RIBAO on 16 July this year, Comrade Li Yanming "challenged" the above traditional concept by saying that the theory of surplus value is not a theoretical basis but merely a content of the theory of scientific socialism. This viewpoint involves an important question concerning the relationships between the three components of Marxism and therefore merits probing.

We Cannot Negate the Basic Role of the Theory of Surplus Value in the Theory of Scientific Socialism

The basic role of the theory of surplus value in the theory of scientific socialism manifests itself in the following three aspects:

First, the development from the theory of utopian socialism to the theory of scientific socialism shows that the emergence of the theory of scientific socialism was based on the discovery of historical materialism and the theory of surplus value.

It was not by coincidence that Marx and Engels regarded the discovery of historical materialism and the theory of surplus value as the basis of the theory of scientific socialism, as the theory of surplus value actually played a basic role in the emergence of the theory of scientific socialism. The content of the theory of scientific socialism is the reflection of the basic contradictions of capitalist society and the contradictions between the proletariat and the bourgeoisie in the mind of the founder of the theory of scientific socialism. To correctly reflect these contradictions, it is necessary to have a scientific way of thinking, that is, to establish a scientific world outlook and methodology of correctly understanding the law of the development of social history. Historical materialism reveals the general law of the development of human society. Only by applying historical materialism to the meticulous study of the economic activities in capitalist

society, can we provide the theory of scientific socialism with more scientific, stricter, and more detailed arguments so as to make the basis of the theory of socialism more practical. The theory of surplus value scientifically expounds that the proletariat and the bourgeoisie are opposed to each other and explains that in the course of capitalist development, capitalism not only creates the material basis--the socialized productive forces--for its self-extinction, but also fosters a social force--the proletariat--which will overthrow capitalism and build socialism. This has laid a theoretical basis for the theory of scientific socialism to expound the historical mission of the proletariat, thus answering the questions of what to rely on and which road to take, which the theory of utopian socialism cannot answer. Obviously, without the theory of surplus value, the theory of socialism would lack a practical basis and it would not have developed from utopian socialism to scientific socialism.

Second, viewed from the angle of the relationship between the economy and politics, the economy is the basis of politics. The theory of surplus value belongs to the economic category and the theory of scientific socialism belongs to the political category. The relationships between the two are like those between one who decides and one who accepts the decision and between the basis and what is on the basis.

On several occasions, historical materialism has pointed out: "The production mode in material life restricts the whole of social life, political life, and spiritual life." ("Selected Works of Marx and Engels," Vol 2, p 82) The social life, political life, and spiritual life studied by the theory of scientific socialism, which is a comprehensive political science, are based on the relationships of social production. Engels said: Economic facts are the basis for the emergence of antagonistic classes, are the basis of the formation of political parties, are the basis of the struggle between political parties, and are therefore the basis of the whole political history. ("Selected Works of Marx and Engels," Vol 4, p 192) From this we know that to clarify the "theory of parties," which is part of the content of the theory of scientific socialism, it is necessary to scientifically analyze social economic relationships. Socialist democracy is an important part of the content of the theory of scientific socialism. Socialist democracy is controlled by the socialist public ownership system of production materials. Fundamentally speaking, the theory of scientific socialism is a political science which, from the angle of politics, studies and reveals the conditions for proletarian emancipation. The economy is the basis of politics and determines politics. We should not regard the theory of surplus value, which belongs to the economic category, and the theory of scientific socialism, which belongs to the political category, as being at the same level.

[HK200753] Third, the theory of surplus value is not only the basis of some of the content of the theory of scientific socialism, but also the basis of all the important content of the theory of scientific socialism.

Comrade Li Yanming maintained that the "explanation of the capitalist production mode and proletarian revolution provided by the theory of surplus value constitutes only part of the content of the theory of scientific communism; it does not embrace the whole content of the theory of scientific communism."

Therefore, he said that the theory of surplus value cannot play a basic role in the theory of scientific socialism. This is not an all-round viewpoint. The theory of scientific socialism emerged in the capitalist era. This determined that Marx's scientific analysis was based on the law of capitalist economic activities. However, on the basis of the law of capitalist economic activities, Marx revealed the root cause of the ruthless economic exploitation of laborers by capitalists, of the sanguinary rule of capitalists over laborers, and of the spiritual enslavement of laborers by capitalists, pointing out the correct road which would enable the proletariat to get rid of economic exploitation, to obtain political democracy, and to gain spiritual emancipation, thus upholding a great banner of scientific communism for the emancipation of the proletariat. In addition, he also revealed the basic characteristics of a future society, its new production mode, and other social relationships determined by this new production mode, thus providing a scientific basis for some basic principles of socialism. The basis of the main principles of the theory of scientific socialism can be found in the theory of surplus value. In this sense, Engels said in reference to the relationship between "Das Kapital" and the theory of scientific socialism: "Here, socialism is given a scientific explanation for the first time." ("Collected Works of Marx and Engels," Vol 16, p 412)

Since its emergence, the theory of scientific socialism has developed following the development of practice. With regard to the part of the theory of scientific socialism concerning the period after the proletariat takes over political power, or in other words the part on socialist construction, Marx merely gave it some principled expositions according to the general law of social development and the economic law of capitalist society. Some of these expositions have been proved correct and others wrong. Therefore, it goes without saying that the development of the theory of scientific socialism in the new period should be based on the actual development of socialist society. However, we should not draw the conclusion that the theory of surplus value is not a theoretical basis of the theory of scientific socialism.

Historical Materialism and the Theory of Surplus Value Are the Theoretical Bases of the Theory of Scientific Socialism, But They Are at Different Levels

Comrade Li Yanming also maintained: As a theoretical basis, the theory of surplus value is inherent in the theory of scientific socialism; it does not exist as an external factor and therefore must not be treated on the same footing as historical materialism, and a "distinction should be made." This is an oversimplified way of explaining problems. An internal factor can change into an external one and vice versa. In a broad sense, the relationship among the three component parts of Marxism are inherent and are therefore inseparable. But in a narrow sense, the three component parts of Marxism, that is, historical materialism, the theory of surplus value, and the theory of scientific socialism exist independently.

[HK200755] In this way, there are at least two bases for establishing a theory: First, Engels, in his "Anti-Duhring," and Lenin, in his "The Three Origins and Three Component Parts of Marxism," clearly divided Marxism into three parts: Marxist philosophy, Marxist political economy, and the theory

of scientific socialism. The theory of surplus value is the foundation stone of Marxist political economy. If the theory of surplus value is regarded as a part of the theory of scientific socialism, Marxist political economy cannot exist, and Marxism would consist of only two component parts instead of three. This does not correspond with the structure of the Marxist system. Second, after explaining the two discoveries in "The Development of Socialism From Utopian to Scientific," Engels said: Due to the two discoveries, socialism has become scientific. "The problem now is to probe further into every detail and relationship of this science." ("Selected Works of Marx and Engels," Vol 3, p 424) Obviously, in his logic, Engels did not regard the theory of surplus value as an "internal detail and relationship" of the theory of scientific socialism but as its external "theoretical basis." Therefore, the difference between "internal" and "external" is referred to from the angle of abstract scientific study.

From the above explanation, we know that the theory of surplus value and historical materialism are the theoretical bases of the theory of scientific socialism. But they are not at the same level. As a world outlook and methodology, historical materialism is fundamental, is the point of departure, is the foundation, and is therefore at the first level; the theory of surplus value is the application and demonstration of historical materialism and is therefore at the second level. At these two levels, the theory of scientific socialism emerged. We must be able to see both the direct relationships and the differences between the theory of surplus value and the theory of scientific socialism.

I have an explanation to add: The relationships between the theory of scientific socialism on the one hand and historical materialism and the theory of surplus value on the other should be referred to as the relationships between historical materialism and the theory of surplus value on the one hand and the emergence of the theory of scientific socialism on the other, or as the relationships between Marxist philosophy and Marxist political economy on the one hand and the theory of scientific socialism on the other. Marxist philosophy may be replaced by historical materialism and Marxist political economics may be replaced by the theory of surplus value, but in the sense of strict science, such replacements are not feasible on all occasions. As for the change in the way of referring to the above relationships, it does not affect the content of this article.

CSO: 4006/211

NATIONAL POLICY AND ISSUES

BRIEFS

BEIJING REVIEW PUBLICATION BUSINESS SECTION--Beijing, 3 Jan (XINHUA)--The BEIJING REVIEW, a weekly magazine reporting Chinese politics and current affairs, will add a special business and trade section this month. In its English, French, German, Spanish and Japanese editions for January, the new section will carry articles including "Minister Chen Muhua on Foreign Economic Relations and Trade for 1985"; "Accelerating China's Agriculture With Foreign Investment"; and other business-related features. Published since 1958, the BEIJING REVIEW is in circulation in 150 countries. [Text] [Beijing XINHUA in English 0647 GMT 3 Jan 85 OW]

CSO: 4006/250

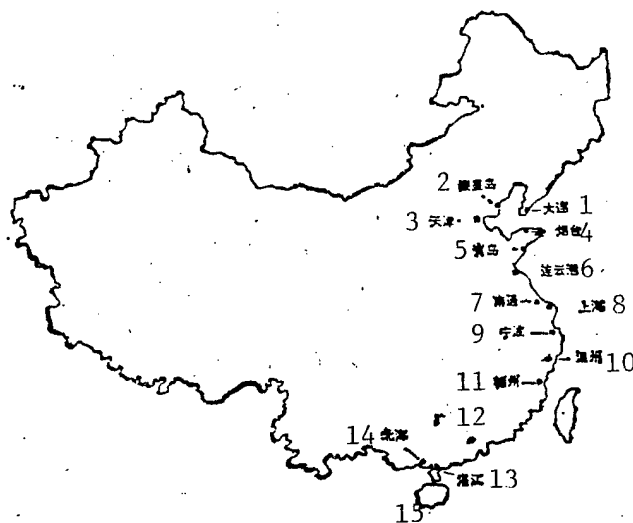
ECONOMIC DEVELOPMENT ZONES

SURVEY OF 14 COASTAL CITIES OPEN TO FOREIGN TRADE

Editorial Note

Beijing GUANGMING RIBAO in Chinese 11 Jun 84 p 2

[Text] Editor's note: At the Second Session of the Sixth NPC, Premier Zhao Ziyang pointed out in his "report on the Work of the Government" that additional steps will be taken to open up the 14 coastal ports and cities of Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, Beihai and Hainan Island; that certain special policies will be applied to the special economic zones; and that the powers of the 14 ports and cities will be expanded. These major policy measures have aroused wide interest both at home and abroad and the general public has evinced a desire to know more about the economic construction, geography and environment of these coastal cities and ports. Starting today, this paper will continue to publish informational material on these cities and ports for the edification of our readers.



- Key:
- | | | |
|----------------|----------------|-------------------|
| 1. Dalian | 6. Lianyungang | 11. Fuzhou |
| 2. Qinhuangdao | 7. Nantong | 12. Guangzhou |
| 3. Tianjin | 8. Shanghai | 13. Zhanjiang |
| 4. Yantai | 9. Ningbo | 14. Beihai |
| 5. Qingdao | 10. Wenzhou | 15. Hainan Island |

The population of the 14 cities constitutes 7.7 percent of the nation's total, while the gross value of their industrial production accounts for almost one-fourth of the nation's total.

	Total Population (10,000)	Population in City (10,000)	Gross Value of In- dustrial Production (100 million yuan)
Total for 14 cities	7,875.32	2,255.53	1,425.4
Dalian	476.80	151.50	84.3
Qinhuangdao	223.00	41.17	8.9
Tianjin	785.28	519.31	229.2
Yantai	310.91	68.45	46.6
Qingdao	620.40	120.60	77.6
Lianyungang	292.45	43.29	13.5
Nantong	741.31	39.72	60.1
Shanghai	1,194.01	639.07	678.6
Ningbo	481.46	47.18	52.2
Wenzhou	611.46	51.02	18.1
Fuzhou	474.91	114.20	26.0
Guangzhou	683.94	315.51	118.7
Zhanjiang	462.72	87.84	10.2
Beihai	16.67	10.64	1.4

Profit taxes paid by industries exceed one-fourth of the nation's total. While the profit tax rate is about twice the average for the nation.

	Original Value of Fixed Assets (100 million yuan)	Total Amount of Profit Taxes (100 million yuan)	Profit Tax Derived from Each 100 Yuan in Funds (yuan)	Labor Production Rate for Each Worker (yuan)
Total for 14 cities	554.8	264.0	46.1	21,742
Dalian	51.4	15.0	31.1	17,420
Qinhuangdao	8.7	1.4	15.5	8,508
Tianjin	115.1	40.7	35.8	19,608
Yantai	15.5	3.2	18.9	14,648
Qingdao	32.6	11.7	36.3	17,127
Lianyungang	6.3	1.6	24.1	10,133
Nantong	12.8	3.7	26.0	21,036
Shanghai	235.0	119.5	65.6	28,684
Ningbo	7.5	3.7	38.5	19,685
Wenzhou	4.8	0.8	15.2	9,005
Fuzhou	10.6	2.4	19.1	12,287
Guangzhou	48.5	19.0	34.9	17,094
Zhanjiang	5.1	1.2	20.9	8,703
Beihai	0.8	0.1	12.9	7,442

Volume of freight carried by sea and land comes to one-fifth of the nation's total, while that handled by the coastal ports comes to 97 percent of the nation's total.

	Freight Carried by Railways (10,000 tons)	Freight Carried by Highways (10,000 tons)	Freight Carried Sea (10,000 tons)	Freight Handled by Coastal Ports (10,000 tons)
Total for 14 cities	11,798	24,666	10,448	25,583
Dalian	2,869	999	45	3,520
Qinhuangdao	1,167	624	--	3,057
Tianjin	1,910	7,574	650	1,506
Yantai	206	2,398	87	1,227
Qingdao	2,591	1,804	452	2,268
Lianyungang	458	547	162	858
Nantong	--	254	910	--
Shanghai	1,287	344	3,116	9,190
Ningbo	217	810 [?]*	614	483
Wenzhou	--	587 [?]*	250	307
Fuzhou	132	381	259	353
Guangzhou	600	587	3,775	1,601
Zhanjiang	361	221 [?]*	86	1,140
Beihai	--	36	82 [?]*	73

[?]* Number unclear in original

Note: Amount of freight carried by highway and sea includes freight carried under the Communications Bureau System and by organized society.

Scientific and educational undertakings prosper. Scientific and technical personnel, institutions of higher learning and middle and vocational schools constitute 12 to 17 percent of the nation's total.

	Natural Science and Technical Personnel (Number of People)	Institutions of Higher Learning (Number of Insti- tutions)	Middle and Voca- Schools (Number of Schools)
Total for 14 cities	802,407	136	384
Dalian	63,479	11	17
Qinhuangdao	8,903	1	12
Tianjin	166,667	28	53
Yantai	26,344	3	21
Qingdao	42,560	7	21
Lianyungang	9,494	2	5
Nantong	43,262	4	11
Shanghai	321,872	43	92
Ningbo	19,201	2	13
Wenzhou	13,493	2	8
Fuzhou	18,827	8	34
Guangzhou	52,655	20	85
Zhanjiang	14,207	5	12
Beihai	1,443	--	--

Note: Number of scientific and technical personnel in Qinhuangdao and Lianyungang includes only those employed by the enterprises under the cities.

The number of staff and workers constitutes 13 percent of the nation's total, while the number of staff and workers employed by the industrial enterprises constitutes 15 percent of the nation's total.

	Number of Staff and Workers (10,000)	Staff and Workers in Industrial Enterprises (10,000)	Percentage of Staff and Workers in Industrial Enterprises out of Total
Total for 14 cities	1,511.8	766.9	50.7
Dalian	109.2	58.8	53.8
Qinhuangdao	25.5	10.9	42.7
Tianjin	268.2	137.0	51.1
Yantai	57.8	28.5	49.3
Qingdao	35.5	49.8	58.2
Lianyungang	31.6	12.2	39.4
Nantong	65.1	30.6	47.0
Shanghai	483.0	263.3	54.5
Ningbo	55.0	28.4	51.6
Wenzhou	50.2	28.4	56.7
Fuzhou	62.4	27.4	43.9
Guangzhou	179.0	77.8	43.5
Zhanjiang	35.8	12.3	34.4
Beihai	4.2	1.5	35.7

(Figures supplied by State Statistical Bureau)

Dalian

Beijing GUANGMING RIBAO in Chinese 11 Jun 84 p 2

[Article by correspondent Sun Jun [1327 6874]: "Dalian--Port by a Bay of Blue"]

[Text] The port of Dalian has long been known as "the Bay of Blue" and "the Pearl of the Yellow Sea." Situated in the southern part of Liaodong Peninsula, facing the Yellow Sea in the east and the Bo Hai in the west and looking toward Shandong Peninsula across the sea, it is richly endowed by nature in terms of its geographical position and natural assets. Although situated in the north, it is blessed with an oceanic climate. Spared from severe cold in winter and intense heat in summer. Dalian has a mean annual temperature of 9 degrees centigrade. The coastline of Dalian is replete with twists and turns with many bays, islands and islets. Much of the coastline is rocky, so the water in the bay is deep and the harbor is wide and free from silt and ice. Having a short rainy season and few typhoons, it has a long working season, a rarity among the seaports of the world. With a vast hinterland, Dalian is not only the hub for sea and land communications and transportation between North and South China but

also one of the major international trading ports in the world. At the moment, it has 7 operational areas and 48 berths, 23 of which are capable of handling ships exceeding 10,000 tons engaged in trade with over 140 countries and regions throughout the world. Last year, it handled freight totaling 35 million tons. With exports totaling \$3.9 billion, it ranks as the second largest port in the nation.

With a solid industrial foundation, Dalian has created a relatively comprehensive industrial setup that includes machinery, metallurgy, petrochemicals, textiles, electronics and shipbuilding. The Dalian Shipyard is one of the large-scale comprehensive shipbuilding enterprises with the largest 100,000-ton-class, semi-sunken type of slipway in the nation. In 1981, Dalian broke into the international market when its two shipyards constructed 27,000 tons of loose-packed freighters for foreign clients. The Dalian Locomotive and Rolling Stock Factory is an enterprise producing high-power diesel locomotives. The "East Wind IV" diesel locomotives it produces are the main type used for domestic railway freight transportation. The Dalian Chemical Industrial Company produces over 40 percent of the sodium carbonate in the nation. The Dalian Steel Mill is the base for the production of high-speed steel tools, turning out one-third of the high-speed steel and steel wire produced in the nation. The Dalian Crane Factory has made major contributions to the key water conservancy engineering work at the Gezhou Dam on the Changjiang. Dalian not only occupies an important position in the nation by virtue of its thriving industries but also possesses abundant agricultural, subsidiary agricultural and fishery resources. It produces over 100 types of apples, which account for one-seventh of the nation's total and which enjoy a good reputation at home and abroad. It also produces an abundance of fish and shellfish. It is in Dalian that the largest fishing port in the nation has been constructed. The unloading of fish, the pumping of water and oil and the loading of ice are all automated.

Dalian has a long unbroken coastline. With its reefs strewn at random, blue skies, white clouds, bluish-green waters and black reefs, Dalian has the image of an enchanted island. The different styles of new and old buildings in the city proper and the green trees and riotous flowers lend a special grace to a city which attracts tens of thousands of tourists, both Chinese and foreign, every year. To meet the need for the development of the tourist trade, Dalian is in the process of establishing a large-scale tourist center--Baiyunshan Park.

In seeking to implement the spirit of the forum on coastal cities called jointly by the Secretariat of the CPC Central Committee and the State Council, Dalian plans to establish an economic development zone in the vicinity of Maxiang Bridge in Jinxian County in order to bring in foreign capital, advanced techniques and administrative expertise to speed up the development of energy resources, communications and the technical reform of the old enterprises and to provide an impetus to the speedier development of foreign trade.

Qinhuangdao

Beijing GUANGMING RIBAO in Chinese 11 Jun 84 p 2

[Article by correspondent Jiang Wenxiang [1203 2429 4392]: "Qinhuangdao---Excellent Ice-Free Port"]

[Text] Situated west of Bo Hai and east of Yanshan, Qinhuangdao is a beautiful coastal city. A link between the Northeast and North China, it is known as the gateway to Beijing and Tianjin.

Bright and beautiful, Qinhuangdao enjoys a mild climate. When one climbs to the top of Nanshan in the city, an enchanting view appears before one's eyes. In northern Shandong, a cluster of mountains rises and falls and ridges and peaks overlap one another. Like a huge dragon, the Great Wall winds its way from the shore of Bo Hai to the mountaintop. It is here that Yansai Lake, a scenic spot, is located. Southwest of the mountains is the scenic spot of Beidaihe which is surrounded by mountains on one side and the sea on the other three. Like a series of oil paintings, numerous red, yellow and white buildings protrude from a sea of verdant forests. At the foot of the hills are row upon row of tall factory buildings. Large steamships in the bay blow their whistles while fishing boats are faintly visible in the distance.

Since the liberation, industries in Qinhuangdao have been developed at a rapid pace. Fifteen categories of industries, including construction materials, light industry, metallurgy and machines, have been established in the city. There are over 250 large and small factories. The gross industrial production value of the city in 1983 was almost 60 times the amount at the early period of the liberation. The glass products of Qinhuangdao, a city noted for its glass industry, are well known domestically. Before the liberation, the Yaohua Glass Factory, the only one of its kind produced only 230,000 standard cases of plate glass a year. After the liberation, this old factory was so rejuvenated by the continuous introduction of renovations, the exploitation of potential and the adoption of new technologies and techniques that its annual production has risen to 3.42 million standard cases. Furthermore, 15 new factories producing plate glass and plate glass products have been established. It took only 2 years, from ground breaking to its completion last year, to construct the Qinhuangdao Municipal Glass Factory, which has an annual production capacity of 940,000 standard cases of plate glass. Right from the start, the plate glass it turns out has been of good quality. From the single type of plate glass for home use, over 20 new varieties have been developed for the communications industries, for medical use and for the making of glass fibers and glass fiber products. The plate glass has been rated the best in quality for 5 consecutive years among similar products in the nation. Sold to over 50 countries and regions throughout the world, it accounts for 70 percent of the export total. The well-developed glass industry is a great asset for Qinhuangdao.

Both sea and land transportation in Qinhuangdao are well developed. The city is traversed by the Beijing-Shenyang railway and the Shenyang-Beijing highway. The Beijing-Qinhuangdao electrified railway, which has already been completed, the Datong-Qinhuangdao railway, presently under construction, extend all the

way to the wharf area. These railways have served to establish a close link with Shanxi and Inner Mongolia and play a major role in developing the coal resources of Inner Mongolia, our foreign trade and the domestic economy. Known for its deep and calm waters, its abundance of sand and a limited amount of silt, Qinhuangdao is an excellent natural ice-free port open to year-round traffic in North China. All the wharves and berths have undergone technical improvement. Furthermore, four new wharves and berths have been constructed. There are special wharves for the export of crude oil from Daqing and crude coal from Kailan and Datong and for the shipping of timber and sundry supplies. The port of Qinhuangdao is now completely mechanized or semimechanized. Having established trade relations with 75 countries and regions throughout the world, it has become a major trading port in North China.

The tourist trade in Qinhuangdao has been developed at a rapid pace. Before the liberation, it served mainly as a summer resort for a small number of capitalists and foreign traders. The original villas have now been repaired. Such scenic spots and places of historic interest and natural beauty as "the No 1 outpost in the world," the Mengjiangnu Shrine, the Wanghai Pavilion, the Yingjiao Pavilion and the Zhonghaitan bathing beach have been renovated. A number of guesthouses, hotels, sanitariums and rest homes with a distinctive style have also been built. Last year, they served Chinese and foreign tourists totaling over 2.5 million person-times. Also established are the two round-trip Qinhuangdao-Haibin-Shanhaiguan and Qinhuangdao-Shanhaiguan-Haibin tourist lines and a bathing beach which has been extended 1,000 meters along the coast.

Tianjin

Beijing GUANGMING RIBAO in Chinese 11 Jun 84 p 2

[Article by reporter Wang Lihua [3769 5461 5478]: "Tianjin--Pearl of Bo Hai Bay"]

[Text] When one looks at a map of China, one can see an eye-catching, sparkling and crystal-clear pearl ensconced on the coastline west of Bo Hai Bay. It is Tianjin, one of the three municipalities directly under the jurisdiction of the Central Government.

The largest trading port in North China, it has 34 berths, 20 of which are capable of accommodating ships over 10,000 tons. It is here that we have the largest container wharves in the nation. This port owes its importance to its proximity to Beijing and Tianjin and the plains of North China. It has a vast hinterland of great economic importance. It is situated at the juncture of the Beijing-Shenyang and Beijing-Shanghai trunk lines which extend to the Northeast and the area south of the Changjiang. Tianjin Airport is one of the largest in the nation. The well-developed water, land and air transportation system makes it the hub of communications in the northeastern region. Capable of handling 15 million tons of cargo a year, Tianjin has trade relations with 168 countries and regions throughout the world.

With abundant treasures above and under the ground, Tianjin is richly endowed by nature. Under the ground, it has large reserves of petroleum, natural gas, coal and geothermal energy resources. In addition to producing petroleum and

natural gas for domestic consumption, the Dagang oil field also produces a certain amount for export. Presently under construction, the Bo Hai oil field has begun to show great promise and vitality. Above the ground are the 100-18-long salt beaches scattered all over Bo Hai Bay like stars in the sky and men on a chessboard. The biggest salt-producing region in the nation, they produce the Changlu salt which is well known at home and abroad and which accounts for one-fourth of the amount produced in the nation. Even more difficult to come by are the broad stretches of saline-alkali wasteland and beaches which provide vast areas of land for developers, a rarity for a large industrial city where an inch of land is worth an inch of gold.

Tianjin possesses a strong industrial foundation and great capability for scientific research. With a 120-year history of modern industrial development, Tianjin has over 4,400 factories and enterprises and an enormous contingent of engineering technicians and technical workers. It also has 28 institutions of higher learning, over 100 scientific research and planning institutes and over 100 intermediate technical schools. The automatic optimized shielded gas welder, carbon membrane resistor, and the superior "Fenghuan Brand" hand-cut velvet and carpets produced in Tianjin are brand-name products well known in the international market.

It is easy to get things accomplished when correct policies have been set. Under the guidance of the policy of opening the door to the outside world and invigorating the domestic economy set by the Central Government, Tianjin has forged ahead in making good use of foreign capital and in developing projects of economic and technical cooperation with foreign countries. Last year, 150 agreements and contracts amounting to \$130 million were signed for the importation of technology.

In anticipation of further opening the door to foreign countries, Tianjin is actively engaged in planning the establishment of a special zone for economic development to attract investments from foreign businessmen and compatriots from Hong Kong, Macao and Taiwan to set up joint, cooperative and individually owned and operated enterprises. At the same time, work is being speeded up in such service facilities as the renovation and construction of hotels, apartment houses and international trade and exposition centers: the construction of the Beijing-Tianjin-Tangshan expressway; and the improvement of communications facilities in order to create a favorable climate for foreign investment.

Efficiency is the key to success. The working efficiency and the speed of construction achieved by Tianjin have given a most favorable impression to visitors. The construction work of diverting the 240-km-long Luan River to Tianjin was successfully completed in 1 year and 4 months, while it took only 1 year to rebuild the 7-li-long Xiqing Road, feats considered unprecedented in the rebuilding of the old city.

Every year during the last 3 years, Tianjin has built over 3 million square meters of housing. New buildings are going up like forests within the city limits and new residential areas have materialized in great numbers.

Yantai

Beijing GUANGMING RIBAO in Chinese 11 Jun 84 p 2

[Article by correspondent Qi Guorui [4847 0948 3843]: "Yantai--New Star on the Shore of the Yellow Sea"]

[Text] Yantai, a rising star on the shore of the Yellow Sea, is situated at the eastern end of Shandong Peninsula. Facing Dalian across the sea, it is a beautiful city richly endowed by nature.

Fronting the sea on three sides and connected by land on the other, it has a well-developed system of communication by sea and by land. It is linked by rail with Beijing, Jinan and Qingdao. Its harbor has 15 berths capable of handling over 5 million tons of freight a year. Not only is it connected with 9 large ports in the nation, but it is also open to direct traffic with over 100 ports in dozens of countries and regions such as Great Britain, France, Korea and Japan.

Yantai has an abundance of natural resources. With a coastline extending 2,700 li, it has a great variety of marine products. The extensive shallow beaches offer excellent conditions for the vigorous development of the artificial breeding of such seafoods as sea cucumbers and abalones. Yantai leads the nation in the production of prawns. Its peanuts and apples have long enjoyed a good reputation. Its peanut production comes to 40 percent and its fruit production to 10 percent of the nation's total.

Those who live and work in Yantai have, by using both their hands, built it into a new industrial city. It was here that the light industries were first developed. The Yantai Zhangyu Winery was established in 1892. Its brandy, port, and vermouth were awarded gold medals at the international exposition in Panama as early as 1915. When Sun Yat-sen visited Yantai in 1912, he took time out to inscribe the words "pin zhong liquan" on a scroll. Yantai is also the birthplace of the clock and watch-making industries. The Yantai Wooden Clock Factory was established in 1915. Its "Baoshi Wooden Clocks" were the first mechanized clocks produced in the nation. When Feng Yuxiang, the patriotic general, visited Yantai, he took pleasure in writing a poem entitled "In Praise of Yongkang Clocks and Watches." The "Chengming Tripe Locks" produced in Yantai have long enjoyed a worldwide reputation. Since the liberation, the factories producing these three famous traditional products have continued to expand their buildings and renew their equipment. The quantity and quality of these products have improved with each passing day. They have been awarded gold and silver medals by the state and are being marketed far and wide throughout the world.

With its increase in industrial and agricultural production, Yantai has become one of the bases for the export trade in the nation. Aside from the traditional brand-name products, Yantai also manufactures new products for the 1980's. The export of "Zhibai Champagne" leads the nation among medicinal wines. Exports of canned goods, metals, drawnwork and lace are also considerable.

Situated on the coast and made up partly of hills and flatland, Yantai is possessed of great scenic beauty. Being at a temperate latitude, it is warm in winter, cool in summer and delightful all year round. In spring, pear blossoms run wild over the fields, while butterflies and bees flit and pirouette in an intoxicating tableau. In summer, one can escape the heat at the beaches with their soft breezes and gentle waves. The autumn season is even more captivating. Everywhere one looks, red apples and golden pears greet the eye and their fragrance gladdens the heart and refreshes the mind. In winter, the snow-covered harbor and the hills present an entirely different charm. More than half of the counties in the city have hot springs and the city has long been known as "the home of hot springs" and as an ideal place for convalescence.

Although it has a long history, Yantai is young as a city. According to research on artifacts which have been unearthed, human beings thrived and multiplied in Yantai over 10,000 years ago. After having united China in 221 B.C., the First Emperor of Qin made personal visits to Zhifu Island on three occasions. Emperor Guangwu of the Han Dynasty, too, had been here on an inspection tour. An ancient culture and a long history have bequeathed to Yantai a wealth of cultural relics and folklore. The museum in the city is resplendent with carved beams and painted rafters. The art of sculpture displayed is seldom matched by the ancient edifices in China. The world-renowned Penglai Pavilion in Penglai County, the Huancui Tower in Weihai and the tablets of the Northern Dynasty (386-581 A.D.) on Wenfeng Mountain in Yexian County are all tourist attractions. Because of its special charms, Yantai is coming more and more into the public eye as time goes by.

Qingdao

Beijing GUANGMING RIBAO in Chinese 22 Jun 84 p 2

[Article by correspondent Cai Xiaobin [5591 2556 3433]: "Scenic Qingdao"]

[Text] Qingdao is a youthful coastal city. In olden days, it had, aside from a modest textile industry, a rather weak industrial foundation. While the light and textile industries still dominate, it now has a large variety of industries such as rubber, chemicals, electronics, instruments and meters, machinery, metallurgy and construction materials. The gross industrial production value in 1983 was equivalent to 37 times that in the first days of the liberation. In recent years, 104 of its industrial products have been rated as being of superior quality.

Qingdao is blessed with an excellent harbor and communications and transportation facilities. It has 9 wharves with 49 berths, 15 of which are capable of accommodating vessels exceeding 10,000 tons. The volume of freight it handles comes to 21 million tons a year. Having an extensive body of water inside the bay and being free from ice and silting throughout the year, it is one of the major international ports in China. Both passenger and freight transportation by rail are well developed. Civil airlines extend to Shanghai, Beijing and Dalian. One of the five major trading ports, Qingdao ranks sixth in the volume of export freight it handles.

Qingdao is well known for its scenic beauty. With mountains on one side and the sea on the other, it enjoys clean air and a pleasant climate. Having a mean annual temperature of 12.2 degrees centigrade and free from intense summer heat and winter cold, it is an ideal summer and tourist resort. Within the city limits are the Xinhao Mountain, the Guanxiang Mountain, the Guanhai Mountain, the Yu Mountain and the Zhan Mountain, all of which have green gentle slopes. It is a pleasing experience to look at the sea from a mountaintop and to listen to the surf while being wafted by cool breezes. The winding paths at the Zhan Bridge, the Luxun Park, the Aquarium, the No 1 Bathing Beach and the Zhongshan Park evoke scenes from a painting. Situation in the northeastern suburb, Lushan, with its ancient trees soaring up to the sky and temples scattered at random, is one of the major scenic spots in the nation. Last year, Qingdao was visited by some 30,000 foreigners, overseas Chinese and seamen of all nations as well as 2.7 million domestic tourists.

In anticipation of the further opening up to Qingdao, the municipal party committee and the municipal people's government have set up a leadership group to assume responsibility for planning the establishment of a 10 square km economic development zone. Conditions are most favorable. A port area can be built to handle over 40 million tons a year in the middle section, a processing industrial area and a logistics base can be built in the northwest section and a tourist and summer resort can be developed in the southern section.

The work of extending the port of Qingdao and of putting the Jiaozhou-Jinan Railway back into service is going at full speed. Preparations are underway to build a new port at Huangdao, to construct a railway between Huangdao and Jiaoxian County and to establish a ferry boat service between Qingdao and Huangdao. The Qingdao civil airport will be converted into an international airport, and the number of domestic and foreign air routes will be increased. Furthermore, preparation are underway to install in Qingdao a 10,000-subscriber electronic program-controlled telephone switchboard for automatic dialing and a 500-subscriber program-controlled switchboard for long-distance phone calls. Work is also in progress on extending, altering and rebuilding certain tourist facilities.

The green island of Qingdao is ready to greet a better and more beautiful tomorrow!

Lianyungang

Beijing GUANGMING RIBAO in Chinese 16 Jun 84 p 2

[Article by correspondent Fang Tongbiao [2075 0681 2871]: "The New Coastal City of Lianyungang"]

[Text] Situated on the shore of the Yellow Sea, Lianyungang is a burgeoning coastal city in northeastern Jiangsu with a vast economic hinterland. A transportation network is formed by railways, highways and inland rivers. Sitting astride the east-west communication artery of our nation, the coastal city is the starting point of the Longhai Railway which links up northern Jiangsu, southern Shandong, northern Anhui, Henan, Shanxi and Shaanxi with 11 provinces

and regions such as Sichuan, Gansu, Qinghai, Xinjiang and Ningxia, Highways extend directly to Nantong, Nanjing, Xuzhou and Qingdao. International air routes extend to Korea and Japan in the east and to the five continents and four seas.

The Lianyungang harbor zone is confined to a long narrow area. Yuntai Mountain, the highest in Jiangsu Province, rises abruptly skyward, towering majestically over the city. The east-west island chain (also known as Yingyou Mountain), which lies across the azure sea, serves as a natural protective screen for the harbor. An excellent ice-free port, Lianyungang has five 10,000-ton, two 5,000-ton and two 3,000-ton class berths with complete sets of the necessary harbor facilities. The amount of freight handled by the port is equivalent to 151 times the amount in the early period of the liberation.

Three li west of the old harbor area stands a mountain stronghold that rises abruptly from the sea across from Turtle Head Rock on Xilian Island in the distance. A contingent of close to 10,000 workers are engaged in the construction of the new harbor, designated one of the key construction projects in the nation. The first phase of the engineering work is expected to be completed in 1985, by which time the port will be able to handle four times the amount of coal being handled at the present time.

Lianyungang is also a burgeoning industrial coastal city. The Huaibei Saltworks, one of the four sea salt-producing regions in the nation, is known for its white course-grained salt known as "Huai Salt." The Jinping Phosphorus Mine, situated on the southern slope of the verdant Jinping Mountain and presently one of the six large phosphorus mines, is the only joint mining and selecting enterprise in the nation.

Situated between the mountains and the sea, Lianyungang has vast resources on the land and in the sea. The 1 million mu of forests, the shoreline and the freshwater areas produce large quantities of agricultural products, special forest products, marine products and a variety of vegetables. Lianyungang, where marine products are being caught as well as bred, is one of the eight large coastal fishing bases in the nation. The prawn produced in Lianyungang is known for its size, plumpness, thin shell and tenderness. The volume of production is one of the largest in the nation.

With mountains and rivers within the city limits, Lianyungang is known for its natural scenic beauty and abundance of scenic spots and places of historic interest. It is said that when Wu Chengen fell into disfavor in the Huaian Prefecture, he learned of the Yuntai Mountain in Haizhou, one of the four sacred mountains in the world. Thereupon, he took a boat to the bottom of the mountain from where he could see the mountain surrounded by the sea on all sides, breath-taking mountain peaks and simple rocks wreathed in clouds and mist in what appeared to be a continent in the ocean. Then and there, he decided to take up residence in the Sanguan Shrine on the mountain. He listened to the folklore, did some research on the spot and, by dint of his fertile imagination, completed the old classic "Journey to the West" in 3 years. Many of the scenes described in the book, such as the 72 Caves, the Shuilin Cave, the Nantian Gate, the Yuhuang Palace, the Laojun Hall and the Niuwang Temple had actually existed on Yuntai

Mountain long before the book came to be written. The natural scenery of the mountain is very similar to that of Huaguo Mountain described in the novel. Most of the palace buildings, kiosks and pavilions on Huaguo Mountain have now been repaired and renovated. The natural scenery is exactly the way it was depicted by Wu Chengen in these words:

"The jade-green grass and exotic flowers never fade,
The pines and cypresses are forever young,
The magical peach trees bear fruit all year round,
The clouds often linger over the slender bamboos."

Because of its ample rainfall and delightful climate, Lianyungang is also an ideal summer resort and a mecca for tourists.

Nantong

Beijing GUANGMING RIBAO in Chinese 16 Jun 84 p 2

[Article by reporter Yang Kaimin [2799 7030 3046] and correspondent Bao Rongning [7637 2627 1380]: "Nantong--City on the Rise"]

[Text] Well situated geographically on the northern shore of the lower reaches of the Changjiang west of the Yellow Sea, Nantong is a developing coastal port. The port--26 km in length, 8 km in width and with a minimum of 11 meters and a maximum of 20 meters in depth--is capable of berthing 30,000- to 50,000-ton seagoing vessels. The harbor has an even contour, there is enough tidal movement in the channel to prevent silting and the harbor does not have a freezing period and is not directly exposed to typhoons. An excellent port richly endowed by nature, Nantong is in a position to control traffic to the ocean and up the river and canals. From Nantong, ships can sail to any place along the coast and all the seaports in the world. Up the river is the vast economically important hinterland of Jiangsu, Anhui, Jiangxi, Hubei, Hunan and Sichuan. The canals to Ganyu and Yangzhou originate from Nantong and extend to northern Jiangsu.

Not long after being opened to traffic, Nantong was visited by foreign ships from over 20 countries and 30 foreign ports. The volume of traffic handled by Nantong came to 6.2 million tons last year.

Modern industries in Nantong were developed at an early date. It was in 1895 that Zhang Jian, a nationalist industrialist, established the first independently-operated textile mill. After the liberation, the industries in Nantong began to be developed at a rapid pace. The average annual rate of progressive increase in the gross production value came to over 12 percent.

The soil of Nantong is fertile and the climate is mild. Rich in subsidiary agricultural products, Nantong is well known as a base for the production of commercial cotton. A large quantity of silkworm mulberry and jute is also produced.

In recent years, Nantong has been developing its foreign trade at great speed. From 1977 to 1983, the city has made use of foreign capital, amounting to more than \$76 million, to bring in 91 advanced technical projects and facilities from the Federal Republic of Germany, Switzerland, the United States, New Zealand, Hong Kong and Macao. Fifty-five of the projects have already begun production, while the rest are expected to follow suit within the year.

It took the joint Sino-Japanese Nantong Liwang [0500 3769] Co., Ltd, only a year to complete the process of contract signing and planning for the construction of factory buildings and to begin actual production. A profit was made in the first year. It is expected that the entire amount of the investment will be paid off within 2 or 3 years. The Japanese general manager of the company said, "This company has a better record than similar Japanese Liwang companies anywhere in the world." Nantong is planning to make use of foreign capital to bring in advanced techniques to improve over 250 facilities and projects in the near future so that the production techniques may for the most part reach the standard of the 1970's and 1980's.

Nantong, which has recently been designated 1 of 14 coastal ports to open up further to foreign trade, is now actively engaged in creating the necessary conditions for the establishment of a zone for economic and technical development. Foreign traders and overseas Chinese from such countries and regions as Japan, the United States, Great Britain, the Federal Republic of Germany and Hong Kong have already indicated interest in making investments for the establishment of manufacturing enterprises alone or in partnership or cooperation with Nantong.

Nantong is known for its scenic beauty. The Haohe flows around the youthful city like a gleaming necklace. The Langshan in the southern suburb rises high and gracefully. From the top of the mountain, one can see the mist swirling over the river where the water meets the sky and the river and the ocean and the plain form a boundless expanse of dark green as far as the eye can see. It is no wonder that when he visited this mountain, Wang Anshi, a poet of the Northern Song Dynasty, was moved to rhapsodize thus:

"The roads to lakes and rivers have I trodden,
'Tis but now my vision doth broaden."

Shanghai

Beijing GUANGMING RIBAO in Chinese 30 Jun 84 p 2

[Article by reporter Xie Jun [6200 6511]: "Shanghai--City of Heroes and Port of Enchantment"]

[Text] Shanghai, situated on a plain in the Changjiang Delta, controls the entrance to the Changjiang while guarding the communication route to the East China Sea. With the Changjiang on one side and the sea on the other, Shanghai, with its vast hinterland, has long been known as "Thoroughfare to the Eight Provinces." Its sea lanes and air routes extend to all places throughout the world. While the city proper comes to 230 square km with a population of 6 million, the entire area of Shanghai comes to 6,186 square km with a population of over 10 million.

It was 5,000 or 6,000 years ago that the forefathers of the present residents first came to labor and to multiply on this piece of land. Shanghai became a trading port in the southeast coastal area in the Tang Dynasty. By the middle of the 19th century, Shanghai had become a thriving port. In the 100-odd years following the Opium War, the people of Shanghai waged a relentless struggle against aggression and for freedom and democracy. It was here in July 1921 that the Chinese Communist Party--the vanguard of the working class in our nation--was born. It was on 27 May 1949 that Shanghai was liberated.

Over the last 35 years, the heroic people of Shanghai have achieved momentous gains and a glorious record. A large number of new industries and large-scale key enterprises have sprung up. Its high-quality industrial products are not only widely sold throughout the nation but also marketed to over 100 countries and regions throughout the world. By 1983, the gross value of its industrial products had reached 67.9 million yuan, or 30 times the amount for 1949. With a progressive annual increase of 10.6 percent, the gross value of Shanghai's industrial products constitutes one-ninth, its revenues one-sixth and the amount of its exports one-fifth of the nation's total.

While rapid progress is being made by Shanghai in industry and agriculture, its scientific, technical, educational, cultural and public health development has also been astounding. At the time of the liberation, Shanghai had only a dozen or so natural science research units with some 200 people. Today, it has over 600 research institutes with over 300,000 technical workers engaged in the various branches of natural science. In the past 35 years, the city has made over 6,000 major achievements in scientific research. It was Shanghai that witnessed the birth of the 300,000-kw generator with inner water cooled stator and rotor, the large-scale electronic microscope, the technique of transplanting broken limbs and the manufacture of ribose and nucleic acid from synthetic bovine insulin, synthetic yeast and acrylic acid, achievements which stand alone domestically or which have attained advanced international standards.

In recent years, Shanghai has established economic and trade relations with over 140 countries and regions throughout the world, imported a large number of techniques and pieces of equipment and set up over 10 jointly financed and operated enterprises. Shanghai has recently decided to use various means to open up further to foreign countries and to make use of foreign capital to import new techniques, to speed up the technical reform of the old enterprises, to develop new techniques, to speed up the construction of new development zones in Minxing and Hongqiao, to develop the tourist trade and a trade center and to improve the means of communication in the city. By dint of its efforts, Shanghai will become a springboard that catapults the Chinese economy into that of the world and establish a bridge linking up the domestic with the world economy.

It is no overstatement to call Shanghai a resplendent and luminous pearl on the east coast. When the curtain of night falls, myriad lights are turned on in homes along the banks of the Huangpujiang. The 10-18-long Nanjing Road is as bright as day and the dazzling shops with their cornucopia of new products beckon to the hustling crowd. From midnight until dawn, the rolling Huangpujiang extends a welcome to ship after ship from foreign shores.

Ningbo

Beijing GUANGMING RIBAO in Chinese 22 Jun 84 p 2

[Article by correspondent Ma Guoxing [7456 0948 5281]: "Ningbo--New Coastal City by the East China Sea"]

[Text] Ningbo is situated on the coast of the East China Sea with mountains on one side and the sea on the other in an expanse of land dotted with cities and rural areas. Blessed with a moist climate, it has long been known as a land of plenty. It is at the halfway mark of our coastline, only 110 nautical miles from Shanghai, at the mouth of the Changjiang and precisely at the apex of an area that radiates outward like a fan from which international sea routes extend to Korea, Japan and the countries in Southeast Asia. It looks across the sea toward the Zhoushan group of islands which serve as a natural protective screen against the wind and the waves. Since time immemorial, Ningbo has served as a major trading port and an entrepot for ocean traffic. Prior to the Opium War, Ningbo ranked second in the nation in the volume of freight it handled. After the Opium War, it was made one of the five trading ports. For over 100 years since then, Ningbo, devastated by imperialism and bureaucratic capitalism, fell into a deepening state of decline. On the eve of the liberation all that was left of Ningbo were a few wharves and decrepit boats.

With the establishment of the New China, Ningbo underwent a momentous change. The port established three harbor areas at Ningbo, Zhenhai and Beilun with 21 berths and has evolved into a multiple-purpose, medium-size port complete with large, medium and small sets of equipment capable of handling 3,000-ton, 10,000-ton and 100,000-ton ships and an annual freight volume of 26.7 million tons. The newly established Beilun harbor area and the second phase of the engineering facility of the Shanghai Baogang form China's largest transshipment wharf for mineral ores and they possess a complete set of world-class advanced loading and unloading equipment and machinery. The Beilun harbor area is deep and the water flows freely. It is free from rough seas, ice and silt and has a large area. Since the harbor channel exceeds 20 meters, it is navigable for 120,000-ton vessels, and even 150,000-ton seagoing vessels do not have to reduce their loads and wait for the high tide to enter or leave the harbor. After the dredging of the 3-km sandbar in the Xiazhimen channel, it is now navigable to 200,000-ton freighters. The harbor extends deeply into a hinterland of over 300 square km. These exceptional advantages and the convenience of assembling, distributing and storing commodities have made Ningbo an ideal international transshipment and trading center.

With the extension of the port and the rapid development of the various projects of economic construction, Ningbo has become a new and burgeoning city with a variety of industries, including the agricultural, subsidiary agricultural and fishery industries. The population of Ningbo is 600,000, or 4.8 million if the population of the 7 counties under its jurisdiction is included. The city has established the light and textile and machine and petrochemical industries as well as an industrial system based mainly on electronics. There are now a total of over 5,400 industrial enterprises.

Also known for its scenic beauty, Ningbo has great potential for the tourist trade. Situated here are the Tiantong Temple, which is "one of the five Tianxia Chanzong Mountains; "The Ayuwang Temple where Sakamuni, the founder of Buddhism, took refuge after renouncing the world; the "Tianyi Pavilion," the oldest library still existing in China; and the Baoguo Temple, a seldom seen wooden structure south of the Changjiang and dating back to the Song Dynasty. Ningbo is also known for its 10 scenic spots, including the Tiantong Forest Park and the Nanxi Hot Springs. Close to Ningbo is the Putuo Temple, one of the four major Buddhist shrines.

Wenzhou

Beijing GUANGMING RIBAO in Chinese 16 Jun 84 p 2

[Article by reporter Ye Hui [5507 6540]: "Wenzhou--A Seaside City Nestled Among the Hills"]

[Text] "A land of prosperity by the sea,
Little Hangzhou they call thee."

That was how Yang Fan [2799 5847], a poet of the Song Dynasty, described the prestigious city of Wenzhou in southern Zhejiang. Nestled among the hills and fronting the sea, the city proper has a population of 360,000, while the total population of the nine counties under its jurisdiction exceeds 6 million. Wenzhou enjoys a mild climate all year round. It is said that its name was derived from the fact that its climate is temperate even in the depth of winter. Its richly endowed natural geographical environment has given it a wealth of products. Such cash crops as oranges, sugar cane and spices have a reputation of long standing. It also has a vast variety of marine products. Aside from an abundance of yellow croakers, butterfish and jellyfish, its groupers, swimming crabs and anchovies, noted for their delicacy, enjoy brisk export sales. Among the 40 types of mineral deposits found by prospectors on both banks of the Oujiang, reserves of alumstone have been estimated at 300 million tons. For this reason, the township of Fanshan in Cangnan County in Wenzhou is known as "the Alumstone Capital of the World."

The urban construction of Wenzhou has only just begun to pick up speed. As a result of the development of sea transportation, the thriving business district is continuously being extended toward the wharf area. The eastern section is aglitter with a great number of new buildings and shops arranged in a neat pattern. The Oujiang, which skirts Wenzhou as it makes its way to the east, not only adds to the elegance of the city but also offers riverboats a venue to ply their trade. The port of Wenzhou is deep and wide. Only a little over 20 km from the sea, the wharves are accessible to 7,000-ton seagoing vessels at high tide. Over 20 wharves of various types have already been constructed. There is still room for the construction of over 40 more wharves for the berthing of ships over 10,000 tons. Wenzhou, which has a vast hinterland, occupies an important geographical position in that it serves not only as one of the gateways of the southeastern provinces to the outside world but also as an entrepot for international trade. Wenzhou has a long tradition as a trading port. Designated as a port as early as the Song Dynasty, it was established as a trading

port in the Qing Dynasty and reopened to the outside world in 1964. The industries of Wenzhou have gradually taken on the special features of a seaport. Among the eight thriving industrial productions are food, textile, shipbuilding, electronic computers and chemicals. The city turns out over 1,000 types of products. Among the 50 export items are condensed milk, ceramic tiles, granite and straw-woven articles. The export of milk products accounts for over half the amount exported by the nation. The traditional handicrafts continue to be developed. Such well-known handicraft products as Ou embroidery, Ou clay sculptures, carved ivory, colored-stone inlays and printed straw mats are being exported throughout the world.

The landscape of Wenzhou is unexcelled in Southeast China. Wenzhou is also known for its "wondrous and unique" wild geese and its magical radon springs. It is no wonder that when Xie Lingyun [6200 7227 6663] came to this beautiful fairyland, he lingered on and on for as long as he could.

Wenzhou, which has set up an economic commission, has decided to establish a special zone for economic and technical development to attract investments from overseas Chinese and foreign traders, to remold the traditional industries, to adjust the structure of its productive enterprises and the range of its products and technology and to develop new industries. In order to improve communications and services, it is planning to construct a civil airport, a high-class guesthouse and more wharves. It has also decided to develop the scenic areas, tourist and vacation villages and the tourist trade in order to meet the needs resulting from the adoption of the open-door policy.

Fuzhou

Beijing GUANGMING RIBAO in Chinese 30 Jun 84 p 2

[Article by reporter Bai Jingzhao [4101 0078 0340]: "Fuzhou--Cultural City of Historic Renown"]

[Text] Fuzhou, which has a population of 1.1 million, has become an industrial city of considerable size. It has developed a comprehensive industrial system with over 1,300 industrial enterprises that include machinery, chemicals, electronics, metallurgy, light industries, food, papermaking, textiles and shipbuilding. The Fuzhou Canning Factory produces over 40 varieties of "Narcissus Brand" canned food which is sold to over 60 countries and regions in Southeast Asia, Europe and the United States. Canned mushrooms are in particular demand. Exports of "Swallow Brand" pencils produced by the Fuzhou Pencil Factory, which ranks second in the nation, enjoy brisk sales in over 50 countries and regions throughout the world. Such products as jacquard bedsheets produced by the United Fuzhou Silk Fabric Printing and Dyeing Factory and the various kinds of clothing produced by the Fuzhou Knitting Factory are all exported to foreign countries. The traditional handicraft products are especially well known at home and abroad. The bright and colorful bodiless lacquerware has won awards in international expositions on a number of occasions. The sparkling and handsome Shoushan stone and jade carvings have won high acclaim. Also deserving of mention are the elegantly carved wooden paintings, silk paintings, bamboo plaits and combs made of horns.

Since ancient times, Fuzhou has been an important port in China's southeastern coastal area. The port of Mawei, situated in the southeastern part of Fuzhou, has been engaged in foreign trade since the 1st century A.D. By the Ming Dynasty, it had become a major port engaged in trade with the Southeastern Asian countries. Following the Opium War, it was made one of five trading ports. The Nawei Shipyard, established in 1966, is one of the earliest shipyards in the country. It is now capable of building fishing boats, passenger boats and even hovercraft and construction boats. In recent years, the port of Nawei has constructed four berths for the shipping of cargo and one refrigeration wharf for foreign trade. The port is accessible to 10,000-ton vessels at high tide. Merchant ships from over 20 countries and regions call and berth at Mawei on a regular basis.

According to Yuan Qitong [5913 0796 1749], newly appointed secretary of the municipal party committee and acting mayor, Fuzhou has since 1979 engaged in 7 joint-investment enterprises, 13 cooperative enterprises, 23 compensatory trade projects and 330 projects involving the processing and installation of imported materials and has imported 98 items of technical equipment. Trade relations have been established with over 60 countries and regions. There are regular daily flights to Nanchang, Shanghai, Beijing, Guangzhou, Hong Kong and Zhanjiang. The long-distance control telephone exchange system imported by Fuzhou has made it possible to dial not only the hinterland and Hong Kong directly but also various areas throughout the world. The color and black and white television sets produced by the joint-investment and jointly operated Fujian Rili Television Co., Ltd., which are up to international standards, are being exported. The microcomputers and calculating machines produced by the Fujian Electronic Computer Factory with imported equipment are also highly regarded domestically.

Since the further opening up of Fuzhou, the provincial party committee has spoken in favor of mobilizing the resources of the entire province in support of Fuzhou and of permitting Fuzhou to recruit specialized personnel from various areas throughout the province. The party committee has also allocated special funds for that purpose. A plan has been drawn up by the city to import 155 projects during the year, some 3 times as many as last year. Fuzhou has also decided to establish the Mawei Economic Development Zone and to invite people from the industrial, commercial and financial circles of Hong Kong, Macao and various countries throughout the world to establish enterprises in and to trade with Fuzhou.

Guangzhou

Beijing GUANGMING RIBAO in Chinese 16 Jun 84 p 2

[Article by reporter Peng Zhouxian [1756 0719 6343]: "The Dynamic City of Guangzhou"]

[Text] Guangzhou, situated at the northern edge of the Zhujiang Delta and facing the South China Sea, is a city with a long history in southern China. It is here that the Dongjiang, the Xijiang and the Beijiang of the Zhujiang River

system meet before flowing out to the sea. The Beijing-Guangzhou Railway, the Guangzhou-Shenzhen Railway and the Guangzhou-Sansui Railway criss-cross each other vertically and horizontally. The inner port of Guangzhou and the outer port of Huangpu are open to ocean traffic. There are large passenger boats and hovercraft serving Haikou, Shantou, Hong Kong and Macao. The coastal ports throughout the nation are connected with Guangzhou by shipping, and ocean traffic has been established with over 500 ports in 110 countries and regions. In civil air traffic, there are 23 air routes linking up the large and medium-size cities in China and Hong Kong, Bangkok and Manila. Thus, Guangzhou is served by a communications and transportation network formed by the ocean, inland rivers, railways, highways and air traffic extending in all directions. With the reform of the system and the importation of foreign capital, there are now over 141 communications and transportation enterprises under various ownership systems, so communications and transportation have become more or more convenient.

Guangzhou is well situated geographically. Facing Southeast Asia, it is accessible to the five continents. Since the Qin and Han Dynasties, it has been a gateway for imports and exports. Even when the policy of closing the entire nation to international intercourse was adopted in the early and middle parts of the Qing Dynasty, Guangzhou was allowed to carry on as the only trading port. Since 1957, two trade fairs have been held each year in Guangzhou. The city is only 147 km from Hong Kong, which serves as an entrepot for its imported and exported commodities. It is from Guangzhou that exported commodities are being sold to over 140 countries and regions.

After the adoption of special policies and flexible measures by Guangzhou in 1979, economic, trade and cultural exchanges have become even more frequent. There are many types of industries in Guangzhou. The heavy industries already have a solid foundation, while the light industries are also being developed. Some light industrial products figure prominently in the domestic market. Guangzhou ranks second in the nation in the production of sewing machines, refrigerators, radios, tape recorders and cameras.

By the end of March 1984, Guangzhou had concluded over 150 contracts with foreign traders involving joint cooperative ventures and compensatory trade and over 11,000 items for the processing of imported materials totaling over \$230 million. The use of foreign capital to import advanced techniques has served to speed up the upgrading and replacement of industrial products and to promote the economic development of the city. After having imported new techniques and the essential equipment for the production of refrigerators, the Guangzhou Refrigerator Factory now ranks second in the nation in the number of refrigerators produced daily and ranks first in the number of refrigerators exported. The Guangzhou Electronic Computer Factory, after having imported electronic computer production techniques from France, was able to go into production in October 1983. The quality of the annual production of 400 units is comparable to similar products manufactured in France in the 1980's.

Guangzhou is the scene of frequent scientific and technical exchange activities. Various scientific and technical expositions, trade fairs, scientific and technical lectures, talks and discussions are being held on a regular basis.

"Eat in Guangzhou" has become a stock phrase. The city has long been known for the distinctive flavor of its cuisine and its style of cooking. The traditional "Cantonese style of cooking" and "Cantonese-style dimsum" have long been known at home and abroad. Luo Kun [5012 0981], a top-grade dimsum chef at the Banxi Restaurant, is said to be able to make over 1,000 varieties of ingenious, exquisite and delicious pastries.

Guangzhou enjoys a warm climate in winter, adequate rainfall and an equitable climate. Its landscape is pleasing throughout the year. Even in winter, 100 flowers bloom in profusion.

Zhanjiang

Beijing GUANGMING RIBAO in Chinese 22 Jun 84 p 2

[Article by reporter Peng Zhouxian [1756 0719 6343]: "The South China Port of Zhanjiang"]

[Text] The new scenic port of Zhanjiang in South China has become a focus of world attention. Early this year, THE WASHINGTON POST had this to say about the coastal port: "It is the opinion of experts that Zhanjiang will become the largest offshore petroleum center in the world" and "in the near future, when the name of Zhanjiang comes up, people will evince the same amazement when Saudi Arabia in the Middle East and Houston in the United States were mentioned."

The port of Zhanjiang owes its development to its excellent deepwater harbor. It is situated in Guangzhou Wan in the northeastern part of Leizhou Bandao in Guangdong Province. Originally named Guangzhou Wan, it faces the vast South China Sea to the east. Outside the port are the islands of Nansan Dao, Donghai Dao and Naozhou Dao which act as a protective screen and natural breakwater. The harbor is wide, deep and calm. The coastline is replete with twists and turns. The deepwater line extends for 97 km, so wharves can be built for the most part without dredging. Part of the coastline can be used for wharves up to the 200,000-ton and the 300,000-ton class. Because of its warm climate and absence of fog throughout the year, it is open to navigation in all seasons. It is truly a natural deepwater port with a promising future.

With land on one side and the sea on the other, Zhanjiang is linked to the Li-Zhan Railway in the west. It is also connected to the Hunan-Guangxi, the Guizhou-Guangxi and the Zhi-Liuzhou trunk lines which serve as a network of arteries between the port and the interior. Because Zhanjiang has a vast economic hinterland, it has become a large assembly and distribution center for imported and exported goods in southwestern China. As for sea traffic, the port of Zhanjiang has become a major trading port by virtue of the fact that it offers the shortest routes to Southeast Asia, Africa and Europe. A large number of domestic and foreign vessels come to the port every year to load and unload their cargoes.

We have in recent years been engaged in developing offshore petroleum resources on a large scale and Zhanjiang has become the base for exploiting petroleum resources in the South China Sea. Thus, its economic structure is likely to

undergo vast changes. Such facilities for the exploitation of petroleum as modern electronic computation centers have assumed major importance. The construction of modern port facilities for six deepwater berths to accommodate vessels exceeding 10,000 tons is being speeded up. Such projects have served to accelerate technical progress in the related industries and to spur on the development of newly established production enterprises.

Zhanjiang has evolved into a commercial and petroleum center and a fishing port of considerable proportions. It has also begun to establish a foundation as an industrial base. Taking advantage of the abundant agricultural and fishery resources, it has set up a large-scale plant for the processing of marine products along the east coast of Diaoshun Dao. Making use of such agricultural products as sugar cane and pineapples, it has also established a sugar refining and a canning factory. Some of its industrial products have gained a foothold in the domestic and foreign markets.

Zhanjiang has established such institutions of higher learning as a marine products institute, a medical college, an agricultural training college and the Leizhou Normal School. It has more colleges than any other medium-size city in Guangdong Province.

Possessed of scenery typical of tropical coastal areas, the city of Zhanjiang is also a tourist and convalescence resort. At the Shoreline Park, coconut trees rise tall and straight, the fragrant grass spreads out like a carpet and exotic flowers and shrubs are everywhere. Strolling through the park, one can enjoy viewing the boundless ocean or sip tea in a teahouse while listening to the soothing sound of the waves. There are more beautiful things than anyone can take in. Huguang Cliff, 18 km from the city, is a natural lake formed by volcanic eruption. The hill by the lake rises up gracefully. The water in the lake is so clear that one can see the bottom. Even in times of drought, the water level of the lake remains stable. One never tires of enjoying the marvelous sight presented by the lake and the mountains in this scenic spot.

Beihai

Beijing GUANGMING RIBAO in Chinese 22 Jun 84 p 2

[Article by reporter Gui Tinggong [2710 2185 1362]: "City of Beihai--An Exotic Flower on a Zhuang Brocade"]

[Text] When one arrives on the northern shore of the bay after driving south along a winding road from the capital of the Guangxi Zhuang Autonomous Region, one can see the city of Beihai--a burgeoning city of tall buildings rising up to the sky like a forest, an evergreen city with a deep harbor of blue waters. Like a dazzling exotic flower, the city adds a decorative touch to the colorful Zhuang brocade of the Guangxi Zhuang Autonomous Region.

Although a pocket-sized city with a population of only a little more than 160,000, Beihai has a long history, favorable geographical conditions and great potential. Even at the time of the Qin and Han Dynasties, it was a major port for trade between China and the countries and regions in Southeast Asia. It

has trade relations with over 60 countries and regions and is one of the ideal ports for the export of goods from such provinces and regions as Guangxi, Yunnan, Guizhou and Sichuan.

Situated on flat terrain, Beihai is girded by the sea in the west, south and north. Facing the vast expanse of the Gulf of Tonkin, it has abundant natural resources. The sea stretching from Weizhou Dao to Hepu County in the south was referred to in olden days as "The Sea of the Mother of Pearl" and was internationally known as the home of the southern pearl. According to historical records, this region has a history of pearl diving dating back more than 1,700 years. The pearls produced in this region are solid and heavy, round and mellow, dazzlingly lustrous, glittering and translucent. It was this region which gave rise to the popular story of "The Retrieval of the Jipu Pearl." There is a common saying to the effect that western pearl (produced in Europe) are not as good as eastern pearls (produced in Japan) and eastern pearls are not as good as southern pearls. At present, the pearl-breeding farm in Beihai covers over 200 mu of the sea. Every natural and artificially seeded pearl it produces is smooth and lustrous. It was Tian Han [3944 3352], the playwright, who wrote the following lines in a poem in 1962:

"Thousands of dippers of rounded pearl smooth as jade,
The southern pearls are the best Asia ever made."

Beibuwan, which girds Beihai on three sides, is also a well-known fishing ground which produces such marine delicacies as sea horse, sea cucumber, prawn, eel and shark's fin and over 500 types of commercial marine products such as grouper, mackerel, red shark's fin, bamboo-shaped porgy and pomfret. Beibuwan also has large reserves of petroleum, quartz, potter's clay and coral.

Beihai has a most promising future. Its close neighbors--Qinzhou, Yulin and Nanning Prefectures--are major grain and cash crop producing areas in Guangxi as well as bases for the production of raw materials for the development of light industries, foreign trade and food processing in the economic development zone in Beihai. With the discovery of petroleum in Beibuwan, Beihai will take advantage of its geographical position to develop its petroleum industry and serve as a base for oil drilling in Beibuwan.

Beihai is beguiling in its scenic beauty. It has a pleasant climate, an exquisite bay and shallow beaches with smooth sand. From Guantouling to Nanmian is a scenic area with mountains on one side and the sea on the other. From Nanmian to Baihutou are over 10 km of beaches of fine sand, which make it an ideal area for the construction of facilities for bathing and water sports. The Shoreline Park, which is considerable in size, is visited by tourists from various areas every day.

Recently, many investors have come to Beihai to make on-the-spot investigations and to discuss investment projects. Investment agreements and statements of intent totalling over 70 million yuan have been signed. When he heard that the Central Government had decided to open up Beihai as a coastal port for foreign trade, a businessman from Hong Kong, a native of Guangxi, promptly made his way to Beihai. "This," he said, "is what I consider the ideal coastal port to make investments."

Hainan

Beijing GUANGMING RIBAO in Chinese 30 Jun 84 p 2

[Article by reporters Peng Zhouxian [1756 0719 6343] and Liu Zhida [0491 1807 6671]: "Hainan, Fairy Maiden, Takes Wings"]

[Text] At the mention of Hainan, one beautiful picture after another flashes across one's mind--coconut trees swaying in the field along the Wanquan River, gentle waves and white sand on sunny beaches, thick forests and slender bamboos on Wuzhi Mountain, the fragrance of exotic flowers and rare plants. Hainan Island is blessed with not only enchanting scenic beauty but also a dazzling array of products as well. Now that the zephyrs of spring have come to this treasure island, Hainan is shining more gloriously than ever before.

An island second in size only to Taiwan, Hainan has an area of 32,000 square km and a population of 5 million composed of the Han, Li, Miao, Hui and Zhuang brotherly races. Divided into 18 counties (cities), the island is under the Hainan Administrative District of Guangdong Province. It has 37.77 million mu of land suitable for agriculture, forestry and animal husbandry and an additional 12.64 million mu of virgin land awaiting development.

Hainan is a mountainous island. Wuzhi, at 1,867 meters the highest mountain in the island, is the source as well as the watershed of the Nanduijiang, the Changhuajiang and the Wanquanhe.

The mean annual temperature of the island is between 23 and 25 degrees centigrade. Even during the few "coldest" days in winter, the temperature is between 17 and 20 degrees centigrade. The island is the region richest in thermal energy resources as well as the largest natural hothouse in the country. On Hainan Island, crops can be grown throughout the year or several times a year. Many workers have been sent by the agricultural production and scientific research departments throughout the country to the island to conduct experiments in the multiple planting of new and improved high-yield varieties of crops. It is the largest base for winter cultivation in the country.

Hainan, which has over 4,000 varieties of vegetation of which 3,000 are of economic value, is also the largest natural botanical garden in the country. The island produces an abundance of green plums, (?sloping ramparts [polei 0980 1093], hua [5303] pears, and such valuable timber as nanmu which can be used for shipbuilding. There are also 800 varieties of wood which can be used for making furniture and for construction purposes. It is said that there is in South America a diesel oil tree which, wonder of wonders, can be made into a fuel that is similar to diesel oil. According to the findings of our scientific workers, this tree is also found in Hainan. Each tree produces from 20 to 100 jin of "oil." At present, almost 4 million mu of land are planted with such tropical cash crops as rubber, coconuts, coffee, cocoa, cashew nuts, oil palm, betel nuts, sisal hemp and citronella. Flowers bloom throughout the year and there is an endless supply of over 300 varieties of excellent tropical fruits such as lychees, longans, pineapples, bananas, coconuts, oranges, mangoes, renxin

fruit, watermelons, custard apples, persimmons, durians and star apples. Breadfruit is used for making bread that makes good eating. Boluomi, a fruit ranging in weight from 20 to 50 jin, is extremely sweet when ripe.

With a coastline measuring some 1,400 km in length, Hainan Island has extensive fishing grounds which produce a large number of fish, shrimp and various kinds of shellfish, not to mention yellow croakers, little yellow croakers, hairtails, cuttlefish, silvery pomfrets, Spanish mackerels and groupers. There are also a large number of meihua sea cucumbers, white milk sea cucumbers, black milk sea cucumbers, abalones, shark's fin and top shells.

In the primeval forests on the island may be found a large variety of birds and animals. Among the rare birds and animals protected by the state are apes with black crowns and long arms, the Hainan water deer, the Hainan spotted leopard, pangolins, peacock pheasants, silver pheasants and black bears. The Hainan deer, found on mountain slopes, are particularly regarded as treasures rarely found elsewhere in the world. Nanwan Peninsula in Lingshui County, which has the only rhesus monkey preservation in the nation, attracts groups of tourists every day.

Hainan Island also offers unusual tourist attractions. One finds scenic beauty wherever one goes. Tourists find such scenic spots as the Wugong Temple, Sugong Temple, Hairui Tomb, Luobi Cave and Taiping Waterfalls so enchanting that they tend to linger on for as long as possible. Most beguiling of all is Sanya City on the southern tip of the island. With mountains on one side and the sea on the other, "The Ends of the Earth Tourist Resort" seems boundless as the sea and the sky. Comrade Guo Morou [6753 3106 5387] not only made three visits to the resort but also wrote three poems on a towering rock by the sea. At the Dadonghai Bathing Beach, the mountains are elegant, the water is clear, the sand is fine and the flowers are red. Spring weather prevails even in winter.

Hainan Island also has a wealth of minerals. The quality of its iron ore at Shiliu is known to the world. The island also has crystals, titanium, cobalt, manganese, coal, quartz and petroleum. The petroleum on the continental shelf in the South China Sea has in particular attracted worldwide attention.

Hainan Island has been likened by some people to a lustrous pearl, while others claim that it may more aptly be described as a graceful fairy--"The Hainan Fairy Maiden." Its wealth of products and mineral resources are its "natural endowment." The decision has recently been made by the Central Government to open up the island a step further, thus adding wings to the fairy maiden. "The Fairy Maiden of Hainan" is about to flap her wings.

9621

CSO: 4006/680

ECONOMIC DEVELOPMENT ZONES

ANHUI GOVERNOR ON SHANGHAI ECONOMIC ZONE

OW230148 Shanghai JIEFANG RIBAO in Chinese 18 Dec 84 p 1

[By reporter He Wannan]

[Excerpts] After news of the expansion of the Shanghai Economic Zone reached here, Anhui Governor Wang Yuzhao said in an interview with this reporter: Backed by Shanghai--the country's largest economic center and window to the outside world--and with the support of the economically developed middle and lower reaches of the Chang Jiang and the energy production of Anhui Province, the Shanghai Economic Zone will certainly lead the country in take-off.

Comrade Wang Yuzhao said that the State Council decision to expand the Shanghai Economic Zone from 10 cities to include 4 provinces and 1 municipality--Jiangsu, Zhejiang, Anhui, Jiangxi, and Shanghai--is another important policy decision following the designation of 14 open coastal cities. This indicates that the gradual development of open, network-type economic zones supported by urban centers is an important part of the city-oriented reform of the entire economic structure. Anhui Province firmly supports this decision of the State Council and is greatly inspired by being part of an economic zone which embodies the spirit of all-out reforms.

Wang Yuzhao said that the establishment of the economic zone is very good for Anhui Province. Anhui produces two kinds of "foods," one for consumption by men and the other--coal--for consumption by industry. Anhui is one of the biggest grain-exporting provinces and is also an energy and raw materials producer. However, it is a predominantly agricultural, landlocked province and, for various reasons, conditions here are comparatively poor in many areas. It is particularly short of capital and personnel. Nevertheless, Anhui also has many strong points. Just as Premier Zhao Ziyang said during a recent inspection tour of Anhui: "Anhui is a good place. It has bright prospects." We have worked out an overall plan of "three zones and one center," and have begun to implement it. The plan is to develop the Lianghuai economic zone with the energy industry as its mainstay and with the two major coal mines of Huainan and Huaibai as its bases; import advanced technology as quickly as possible and develop the coastal economic zone with the backing of the four cities of Maanshan, Wuhu, Tongling, and Anqing along with Chang Jiang and with Maanshan Iron and Steel Company, Tongling Nonferrous Metal Company, Anqing Petrochemical General Plant, and the light and textile

industries in Wuhu as its pillars; develop a tourist zone in Southern Anhui with Huang Shan, Jiuhua Shan, and Taiping Lake as its centers; and build a scientific and technological education center in Hefei. As the "head of the dragon" leading the province in economic take-off, the coastal economic zone is given top priority so that it can establish closer links with Jiangsu, Zhejiang, Jiangxi, and Shanghai by taking advantage of the Cheng Jiang.

Wang Yuzhao emphasized that in developing the "three zones and one center," our province is open to the outside world and more so to other provinces. We particularly place hopes on joint development among the provinces and cities of the economic zone. We have already begun joint investment with Zhejiang in building new coal mines. Jiangsu Governor Gu Xiulian recently made a special trip to our province to sign the agreement on "Economic Cooperation Between Anhui and Jiangsu Provinces." We have also established cooperative ties with Jiangxi, Fujian, and other fraternal provinces. Wang Yuzhao said that, as a raw materials producer, Anhui plans to develop comprehensive processing industries so that the value of our products is increased after each processing. We place our hopes on the 50 million people in Anhui. The establishment of the economic zone is very good for the work of Anhui and we hope the economic zone, especially its center city, Shanghai, will give effective support for us. We believe we can get effective support under the principle of mutual benefit. Of course, we should not have any dependent mentality. We should put the foothold of Anhui's take-off on the work in the province.

CSO: 4006/249

ECONOMIC DEVELOPMENT ZONES

COUNTRY TO IMPROVE TELECOMMUNICATIONS IN SPECIAL ZONES, OPEN CITIES

HK040520 Beijing ZHONGGUO XINWEN SHE in Chinese 0938 GMT 2 Jan 85

["China Speeds Up Construction of Telecommunications in Open-door Cities and Special Economic Zones"--ZHONGGUO XINWEN SHE headline]

[Text] Beijing, 2 Jan (ZHONGGUO XINWEN SHE)--China's posts and telecommunications departments have decided to speed up the construction of telecommunications in the 14 open-door coastal cities and the special economic zones so that their long-distance telephones can be equipped with automatic dialing systems as soon as possible and can incorporate a telex function so that the difficult telephone communications in these cities can be improved.

This year China's open-door coastal cities and special economic zones will be equipped with more than 230,000 urban telephone automatic switchboards, of which more than 205,000 switchboards, or 89.4 percent, will be imported from abroad.

By the end of this year the current number of automatic distancedialing subscribers in Tianjin, Shanghai, Fuzhou, and Zhuhai will be further increased; the automatic distance dialing system will be adopted in Guangzhou, Xiamen, and Shenzhen; and the number of telephone sets will be increased and the speed of manual connection will be accelerated in Dalian, Qinhuangdao, Yantai, Qingdao, Lianyungang, Nantou, Ningbo, Wenzhou, Shantou, Zhanjiang, and Beihai, as well as on Hainan Island. Efforts will be made to begin direct-distance dialing call in these cities and region by the end of 1986.

The medium coaxial wire netting for the main lines between Beijing, Hankou, and Guangzhou; the small coaxial cables for the main lines between Jinan and Qingdao, Hangzhou and Fuzhou, Nanjing and Shanghai, Shantou and Xiamen, and Shenyang and Dalian; and the main microwave lines between Shenyang and Dalian, Guangzhou, Zhanjiang, and Haikou, Shantou and Guangzhou, Shanghai and Nantong, and Hangzhou and Ningbo have all been included in the plans on technical reform of the state and the Ministry of Posts and Telecommunications. They will be put into operation by the end of this year.

China's posts and telecommunications departments will also start the construction of the following projects this year: The small coaxial cable

project between Pingdu and Yantai, the submarine cable or microwave project between Yantai and Dalian, and three microwave projects between Nanning and Beihai, Xuzhou and Lianyungang, and Haikou and Sanya. These new projects, except for submarine cables, are expected to go into operation by the end of this year.

CSO: 4006/249

JINGJI GUANLI ON REFORM OF COLLECTIVE ENTERPRISES

HK040745 Beijing JINGJI GUANLI in Chinese No 10, 5 Oct 84 pp 23-25, 10

[Article by Xiao Weixiang [t618 4850 3276]: "Several Questions Concerning the Reform of Collective Enterprises in Light Industry"]

[Text] Among the urban economic reforms, the reform of light industry in the collective-economy sector started rather early and its development has been healthy. In particular, since last year, collective light-industrial enterprises in various localities have been operated in line with the nature and characteristics of the collective economy; the past practice of mechanically copying the model of the state enterprises in the management of the collective enterprises has been changed; reforms in various areas have been undertaken, with the institution of systems of contractual responsibility for operation as a breakthrough; and gratifying success has been achieved. At present, around 70 percent of all collective enterprises under the Ministry of Light Industry are practicing contractual responsibility systems; in some provinces and cities where progress has been rapid, contractual responsibility systems are being practiced by over 80 percent of the enterprises or, in some cases, have even been instituted on a full scale. There are many varied forms and methods of contracting, and the organic integration of contractual systems with various reforms has powerfully promoted the development of production and the improvement of economic results.

The reforms of the previous stage, undertaken by collective light-industrial enterprises, can be summed up into the following ten categories:

First, many varied forms of systems of contractual responsibility for operation, including external contracting and internal contracting, have been adopted. The enterprises' economic responsibility, powers, and interests have been closely integrated; the interests of the state, the collective, and the individual have been integrated; various reforms have been promoted and pushed forward.

Second, the centralized performance of accounting work by the responsible departments and their centralized assuming of responsibility for profits and losses have given way to the independent performance of accounting work by the enterprises and their assuming of sole responsibility for profits and losses. The right of owning the means of production has been reassigned

to the enterprises. In the past, all collective enterprises "ate from the same big pot"; now this problem has been solved. The enterprises' enthusiasm in production and operation has been mobilized.

Third, the enterprises' decisionmaking power over production and operation has been restored. Enterprises are being operated in line with the characteristics of the collective economy. Moreover, powers have been delegated to various levels, so that even the workshops, teams, and groups have a definite amount of decisionmaking power and the enterprises' inherent vitality and their flexibility in production and operation have been strengthened.

Fourth, democratic management has been practiced. General meetings or congresses of workers and staff members have been restored. Democratic elections are held, and cadres are employed through invitation of applications for [word indistinct]. The workers and staff members have become the masters, and their sense of responsibility pertinent to their role as masters has been strengthened.

Fifth, the principle of "distribution according to work done" has been implemented. Many varied forms of distribution have been adopted. The diligent are awarded and the lazy are penalized. The problem of "eating from the same big pot" previously prevailing within each enterprise has been solved. The workers' enthusiasm has been mobilized.

Sixth, the organizational structure of the enterprises and the scale of production and operation have been readjusted. Small accounting units have been delimited on the basis of products. Large-scale production lines have been converted into small-scale ones. The collective enterprises' characteristics, such as the large number of these enterprises, the wide range of production undertaken by them, their flexibility in operation, and their high degree of adaptability, have reemerged.

Seventh, workers and staff members have bought shares; capital has been raised in this way and dividends are paid. Funds owned by the enterprises themselves to be used at their own disposal have been increased through their own efforts. Closer economic relations have been established between workers and the enterprises. The idea of treating the factory like one's own home has been strengthened.

Eighth, worker-protection welfare systems have been instituted, which operate within the limits permitted by actual capability. Enterprises have developed production and improved economic results; and on this basis, the workers' livelihood has been gradually improved, overall planning of welfare undertakings has been resorted, newly established collective enterprises have adopted social insurance system, and thus the workers' worry about their own interests has been eradicated.

Ninth, technological progress and enterprise consolidation have been grasped in conjunction with reforms. Various categories of management work, with the economic responsibility system as their core, have been strengthened. The quality of the enterprises has been improved.

Tenth, joint organizations of the collective economy, that is, joint associations of the handicraft industry (their members being enterprises of the Second Light Industrial System, and collective industrial enterprises in cities and towns) have been reestablished at various levels, and they have started working. Joint associations have now been restored and established in 25 provinces, municipalities, and autonomous regions.

The abovementioned facts represent both the tasks and the fruits of the reforms carried out by the collective enterprises. Reforms constitute the key to liberating the productive forces. The abovementioned reforms of collective light-industrial enterprises have greatly helped improve the enterprises' economic results and have completely changed the mood of the workers and staff members. In 1983, collective light-industrial enterprises encountered a number of difficulties in production, such as inadequate production tasks for some enterprises due to a decrease in the number of planned tasks and export tasks, a shortage in the supply of energy resources and raw and semifinished materials, an increase in the proportion of raw and semifinished materials purchased at negotiated prices, a fall in the prices of some products, and so on. However, thanks to the reforms undertaken and the contractual systems instituted, the enterprises were subjected to greater pressure and their incentive and vitality increased, so that output could still considerably increase and relatively good results were achieved. In the earlier half of this year, the total output of collective enterprises of the Second Light Industrial System grew by 11.4 percent compared with the same period last year, and the amount of profits and taxes increased by 12.3 percent. With the in-depth development of contractual systems and various reforms, a number of advanced model collective enterprises in undertaking reforms have appeared in light industry, such as the the Haiyan shirt factory in Zhejiang, the Baicheng garment factory in Jilin, the Anyang household electrical appliance factory in Henan, the Liuzhou electric fan factory, the Shenyang tool metal factory, the Shandong experimental plastics factory in Jinan, and so on. They have become national models of reforms in light industry and have powerfully promoted reforms across the entire industry.

At present, urban economic reforms are vigorously developing and a very good situation has appeared. In view of this new situation, and in view of the existing problems, the collective light-industrial enterprises should fully bring the superiority of the collective economy into play and should carry out in-depth reforms in the light of their own characteristics. Thus, the following several problems must be satisfactorily solved.

1. Contractual responsibility systems must be instituted on a full scale and must be perfected. Last year, some localities expressed doubts and worries about the institution of contractual responsibility systems by industrial enterprises, so that the contracted work of some enterprises stopped halfway. In some localities, basic work could not keep pace with the development of the contractual systems, so that the levels of fixed output targets and the levels of basic target figures governing contracted work were not rational, the fulfillment of contracts was affected, and there were cases where contracts drawn up at the beginning of the year could not be fulfilled by the end of the year. In March this year, the State Council issued a document which fully

endorses the institution of contractual responsibility systems by collective light-industrial enterprises; the document says: "Control over collective enterprises belonging to the Second Light Industrial System can be relaxed and they must be allowed to practice contractual responsibility systems." At the Second Session of the Sixth NPC, Premier Zhao clearly said in his Government Work Report: "Small state enterprises can practice contractual systems on a collective or individual basis, can be operated under leases, and can pay taxes to the state like collective enterprises." Practice in various localities has proved that various forms of contractual responsibility systems are applicable to deficit-incurring enterprises, small enterprises, local enterprises, enterprises in counties, as well as profitable enterprises, larger enterprises, and enterprises in large- or medium-sized cities. We must now promote, stabilize, and perfect these contractual responsibility systems. For those localities where development is faster and contractual systems are practiced on a larger scale, the institution of contractual responsibility systems must be promoted and control relaxed, so that all collective enterprises will institute these systems: for those localities where contractual systems are practiced on a small scale or development has just started, the practice of these systems can be gradually popularized and can be made to extend from some individual enterprises to all enterprises. The measures and methods of contracting must be continually extended in scope and improved, and the levels, forms, and measures of contracting must be many and varied, so that contractual responsibility systems can be more compatible with the enterprises' actual conditions, and the development of production and the improvement of economic results can be more satisfactorily promoted.

In practicing contractual systems, we must pay attention to two questions. First, we must pay attention to making the basic target figures governing contracting up-to-date and rational, so that, for one thing, the enterprises will be subjected to some appropriate pressure and will vigorously tap their own potentials, and for another thing, we must make it possible for enterprises to surpass norms through hard work, so that "flogging those oxen which work quickly," or dampening the enthusiasm of the advanced enterprises, can be avoided. Second, we must pay attention to satisfactorily handling the problem of distribution in contracting; we must adhere to the principle of greater revenue for the state, larger retained funds for the collective, and an appropriately higher pay for the individual. The income of the workers and staff members must be linked to the results of operation of the enterprises and to the fruits of the individual's labor. As a higher water level will raise a boat's position, so will the workers of those enterprises which achieve good results get a higher income; conversely, income will be lower for workers of those enterprises which achieve poor results. If the proportion of labor cost in the value of products does not increase and if the increase in profits and taxes exceeds the increase in wages, workers' personal incomes should be allowed to increase appropriately. Our party's policy of enabling the people to become better off must be conscientiously implemented; some enterprises do a good job in production, show adaptability in operation, and achieve good results; while some workers and staff members work hard, surpass others in technical knowledge of skills, or make greater contributions; these enterprises and people must be permitted and encouraged to become well off before others do. Contracts have legal binding power; once a contract is signed,

it must be resolutely fulfilled. Jealousy and the fear of getting well off must be eradicated.

2. Enterprises must really be run in line with the characteristics of the collective economy, so that they can have greater decisionmaking power. Collective enterprises in the light industry belong to the economy where ownership is in the collective comprising the masses of workers; provided that they abide by the state's policies and decrees and accept the guidance of state plans, they should enjoy greater decisionmaking power than state enterprises. We must now further "loosen the fetters" that restrict the collective enterprises, returning power to them. We must end the situation of overly extensive and rigid control and must really set free and enliven the enterprises. Collective light-industrial enterprises can be operated and managed by their own workers and staff members according to the following principle: "An enterprise can assume responsibility for its own management, for its own profits and losses, for selecting or electing its own director, for employing workers, and for fixing wages." Since the beginning of this year, in order to enliven the collective enterprises, many provinces and cities have been trying to discover ways of effecting changes, have further relaxed their policies, and have assigned greater decisionmaking power to the enterprises. The party committees or people's government of over 10 provinces, municipalities, and autonomous regions have now promulgated policies and regulations which support the development of the collective economy. For example, concerning finance, taxation, and credits, some provinces have made regulations whereby a portion of the local financial funds is earmarked for setting up special production funds for developing collective enterprises in cities and towns, and these funds can be used gratuitously or used at a low interest cost; the supply of medium-term or short-term loans to collective enterprises is included in overall planning, and according to some regulations such loans can be borrowed or repaid before the payment of taxes; some provinces which want to help the collective enterprises develop new products and enliven operation have made regulations whereby new technological development funds are set up, these funds being formed by withdrawing 1 percent of the sales revenue, this portion being counted as part of the cost of the product, and if an enterprise wants to open up new markets and attract more customers, it can withdraw 1 to 2 percent from the total sales revenue and enter up this portion as its costs or expenses; some provinces have appropriately relaxed their taxation policies toward the collective enterprises, so that the newly increased portion of an enterprise's profit for the year is taxed at half the usual rate and newly established collective enterprises are exempt from industrial, commercial, and income taxes within a specified time period. Concerning the supply of goods and materials, the collective enterprises are given special consideration; in some provinces, regulations stipulate that in the case of fuels, electric power, and one or two categories of goods or materials needed for production by the collective enterprises, the supply of these resources is included in plans at various levels, so that targets are grasped by the departments in charge and raw and semifinished materials are directly delivered to the factories. Concerning marketing and pricing, according to regulations in some provinces, the collective enterprises, having fulfilled contracts signed with commercial and foreign trade departments

concerning purchases by order or by selection, can sell their products independently, while various forms of restrictions and barriers have been removed; some provinces have made regulations whereby within the limits prescribed by the state's pricing policies, the collective enterprises can, according to the principle of higher prices for higher-quality products, set their own prices, and in the case of products produced by using raw materials, semifinished materials, or fuels purchased at negotiated prices, the collective enterprises are permitted to act according to market conditions, buying or selling them at high prices; seasonal price differential are permitted in the case of seasonal products, while overstocked products can be sold at reduced prices. The collective enterprises' decisionmaking power are extended in matters of production, operation, distribution revenue, using funds, appointing and dismissing personnel, awarding and penalizing workers and staff members, labor management, organizational set-up, and so on. In various localities, the relaxation of policies toward collective enterprises has been endorsed by the vast numbers of cadres, workers, and staff members; good results have been achieved.

Practice demonstrates that if policies are appropriately relaxed and operation is genuinely enlivened, the collective economy in towns and cities will develop rather quickly.

3. Efforts must be devoted to strengthening operation and enlivening circulation. Great changes have occurred in domestic and foreign markets, and the incompatibility of the pattern of production of consumer goods with the needs arising from changes in the consumption pattern has become a highly prominent contradiction. With the undertaking of the reforms of the circulation system, the opening of urban and rural markets as well as the enlivening of the realm of circulation will have an enormous effect on the collective enterprises' production activities. In order to achieve development amid competition, the collective light-industrial enterprises must devote efforts to strengthening operation and management and to enlivening circulation, carrying out bold reforms in these aspects. Production must be flexibly planned in view of market needs and market changes and under the guidance of state planning. In line with the need for producing more varieties of products in smaller quantities, the enterprises' pattern of production must be subjected to reforms, labor organization must be readjusted, and more attention must be paid to organizing "small and highly specialized" or "small and highly sophisticated" production units. The collective enterprises enjoy the advantage of flexibility in operation, as the saying "a small boat can more easily change direction" goes, and this advantage must be brought into play. Small enterprises can do what the big ones do not do, those enterprises, is taken as the pioneering occupation or product; principal links such as technology, information, marketing, and so on are satisfactorily grasped; loose and flexible combination with enterprises in rural areas and small towns or with enterprises in other sectors are undertaken; and an open-style production of commodities is organized. These new explorations should be vigorously supported and experience should be promptly summed up. Enterprises taking part in combination should adhere to the principle of equality, consultation, voluntary action, and mutual benefit, and should also adhere to the principle that the original relations of leadership, the property ownership right, and the decisionmaking power over operation remain unchanged.

5. The reform of leading departments must be carried out concurrently with the reform of the enterprises. At present, a very good initial trend has appeared in our national economic reforms; the characteristics are that the countryside is spurring on the cities, the collective economy is spurring on the economy under ownership by the whole people, small enterprises are spurring on the large ones, and the grassroots levels are spurring on the leading departments. Reform is a general trend of development which accords with the aspirations of the people. Therefore, reforms in the superstructure must keep pace with the developments. Macroeconomic reforms must be very satisfactorily integrated with microeconomic reforms, and reforms of the leading departments must be very satisfactorily integrated with reforms at the grassroots levels. The responsible departments at various levels must keep pace with the development of the situation, must strengthen leadership over reform work, must further free themselves from old ideas, must take the lead to carry out reforms, and must give support to reforms. The leading bodies must streamline administration, delegates powers to lower levels, boldly carry out reforms of those management systems and methods which are disadvantageous to the development of the productive forces, put an end to the method of leadership marked by "mountains of documents and seas of meetings," and abolish old rules and regulations which are marked by excessive interference and overly rigid control. Instead of directly issuing commands over production, exercising leadership over personnel and labor management, and so on, as they did in the past, they must care more about grasping the study of policies, development planning, organizational coordination, economic legislation, supervision and inspection, and so on. They must conscientiously go deep into the reality, carry out investigation and study, and help the enterprises solve problems.

The reforms of collective industrial enterprises in towns and cities constitute part of the set of urban economic reforms. They involve many fields, like planning, goods and materials, financial, taxation, banking, commodity pricing, labor personnel, commercial, and foreign trade departments, and so on. The departments in charge of the enterprises must closely cooperate and coordinate with those departments, must vigorously support the reforms of the collective enterprises, and must give the green light for reform.

CSO: 4006/250

ECONOMIC MANAGEMENT

JINGJI GUANLI ON SYSTEM OF INVITING TENDERS

HK030903 Beijing JINGJI GUANLI in Chinese No 10, 5 Oct 84 pp 16-16

[Article by Li Shenyong [2621 3947 5391]: "On the Significance of the System of Inviting and Submitting Tenders"]

[Text] In recent years, with the in-depth development of the urban economic reform in our country, the method of inviting and submitting tenders has been practiced in some localities and departments in our country. At the Second Session of the Sixth NPC, Premier Zhao Ziyang said in his government work report that a reform extending over the whole of industry can first be carried out in the building and construction industry. The key reform undertaken in the building and construction industry is the institution of the system whereby responsibility for task completion is based on investment and the system whereby tenders are invited and contracts are used. In our national economy, what is the role of the contractual system of inviting and submitting tenders? What are the prerequisites for a satisfactory use of the method of inviting and submitting tenders? Below is an initial discussion of these two questions.

I

In foreign countries, the method of inviting and submitting tenders is a relatively commonly used method of transaction. In recent years, various countries have been paying increasingly greater attention to it. In 1982, General Motors, the biggest customer of the American steelworks, gave up the traditional method of purchasing steel products and began to purchase those materials, raw materials, components, and parts which are mainly steel products by inviting tenders. This change stimulated the American iron and Steel industry and also enabled General Motors to achieve marked economic results. The method of inviting and submitting tenders has caused a "new revolution in operation" among the enterprises of the West. Can it be extensively used in our country's socialist planned economy, and can it bring about relatively good economic results? Practice over the past several years has proved that not only can this method be used in our country, but it can play an important role in our national economic development if it is well used. This is mainly reflected in the following several points:

1. This method is advantageous to the launching of competition, to eradicating the malpractice of "eating from the same big pot," and to promoting urban economic reforms. With the in-depth development of the reform of our country's economic structure, the extension of the enterprises' decision-making power, and the development of the role of regulation by market mechanism, competition has gradually developed. Competition under the guidance of state planning and on the basis of public ownership of the means of production plays an important role in promoting economic development and technological advance. Inviting and submitting tenders is a good method of launching competition, because the submission of tenders is actually a kind of competition; the greatest advantage of this method is that a party inviting tenders can take full advantage of competition among parties submitting tenders to obtain the most favorable economic and technological services. Applicable on an extensive scale, this method can be used in all production, construction, or operation tasks where the contractual system is suitable, such as building and installation projects; research and development involving new technology and new products; the purchase of complete sets of machinery; the purchase of parts, fittings, and raw and semi-finished materials; geological prospecting projects; and even the recruitment, through advertising, of factory directors who will operate enterprises under contracts.

First, the institution of the system of inviting and submitting tenders breaks the state enterprises' "iron rice bowl" in the assignment of production tasks. Under the old economic system, the enterprises' production tasks have been mainly assigned by the state by administrative means, and the enterprises need not worry about the "means of earning a living." In time, a "bureaucratic industrial enterprise" or "bureaucratic commercial enterprise" style of operation has developed among the enterprises, and in some departments a certain degree of monopoly has appeared in the realm of production. These enterprises are marked by great inertia. They just passively and inactively wait for the assignment of tasks by higher authorities. How well production tasks are accomplished and how good economic results are have no substantial bearing on the interests of the enterprises or their workers and staff. Consequently, some enterprises' problems, such as backward products or poor services, have remained unresolved for a long time, and it has been difficult to improve socioeconomic results. However, with the institution of the method of inviting and submitting tenders, production tasks for the enterprises will no longer be simply assigned by higher authorities, but will be secured through the submission of tenders and through competition. If an enterprise wants to win a contract in competition, it must possess qualities that can pass stiff tests, and must show outstanding competitive ability in operation, management, product (or service) quality, price, technology, and so on; otherwise, it will fail in competition. Thus, the method of inviting and submitting tenders can create a competitive environment where the comparative superiority or inferiority of various enterprises can become manifest, so that the enterprises can be spurred on to carry out reforms, to eradicate the malpractice of "eating from the same big pot," and to institute various forms of economic responsibility systems so as to continue to possess strong competitive ability.

Second, by the method of inviting and submitting tenders, the outstanding competitors which offer the lowest prices are chosen to undertake tasks. Thus, strong encouragement and support are given to those advanced enterprises which have achieved a high standard in operation, management, technology, and product (or service) quality. The method also plays a definite role in promoting the combination and reorganization of enterprises, and in rationalizing our country's industrial and technological structure, and in rationalizing the organizational structure of the enterprises.

Moreover, tenders submitted must strictly accord with the conditions specified by the tender-inviting party. Thus, by means of plans, policies, and decrees, the state can guide tender-inviting enterprises, so that inter-enterprise competition can certainly develop in a healthy and normal way under the guidance and supervision of state plans and policies, and blindness in production and construction caused by competition can be avoided.

2. The method of inviting and submitting tenders can help improve the operation and management of enterprises and help enhance socioeconomic results. The submission of tenders is a form of contractual undertaking of tasks whereby contracts must be rigorously fulfilled according to the buyer's requirements. By the method of inviting and submitting tenders, the buyer can obtain terms that are most advantageous to himself, and can then assign the task by contractual means to the enterprise that wins the contract. The contract clearly stipulates in details various requirements concerning the product in terms of specifications, quality, quantity, price, deadline for delivery, criteria governing inspection for acceptance, and so on. The enterprise awarded the contract must assume full responsibility for fulfilling those requirements. If it fails to fulfill them, it must assume the responsibility of providing compensation and must be subjected to economic sanctions which can vary in extent. Thus, before submitting a tender, an enterprise which wants to win the contract must pay great attention to raising its operation and management standards and must earnestly make efforts to improve product quality, to lower costs, to adopt new technology, to develop new products, and so on. To ensure the achievement of good quality, the fulfillment of quantity requirements, and the punctual delivery of goods, an enterprise that has secured a contract must continue to pay great attention to improving management, and must continue to raise labor productivity, improve product (or work) quality, reduce costs, and reduce the consumption of raw and semifinished materials. Thus, the enterprise is under pressure to continually perfect its own operation and management, so that its inherent vitality will increase.

3. In the international arena, our active participation in inviting and submitting tenders will be conducive to increasing exports, improving the economic results of importation, and increasing our country's foreign exchange revenue. Inviting and submitting tenders is extensively used in international trade; in purchasing goods and materials, equipment, or complete sets of equipment, or in building construction projects, some government agencies, state enterprises, or public utilities usually use the method of inviting tenders from competing firms. Therefore, in our foreign trade work, our active participation in submitting tenders in the international arena and our

securing of some contracted tasks according to terms favorable to us can be enormously advantageous to developing our country's superiority, such as the possession of a definite industrial foundation and of abundant labor resources, to increasing our country's export of various categories of products and services, to lowering the costs of obtaining foreign exchange, and to earning more foreign exchange.

Submitting tenders in the international arena is a business marked by intense competition. Poor working efficiency, poor product (or service) quality, and so on, can lead to failure in bidding for a contract by tender. Therefore, the active participation of our enterprises in submitting tenders in the international arena and the tempering of our enterprises in intense competition will be highly conducive to improving our enterprises' working efficiency, to raising product quality, to reducing costs, to raising the professional standards of foreign trade personnel, and to strengthening our enterprises' competitiveness on the international market.

Considering imports, with the development of our national economy and the further opening of our country to the outside world, our import of advanced foreign technology and equipment will continue to increase in the future. Some imported key projects involve large sums of money, and the economic results of the import of those projects will have a considerable effect on our national economy. If the import of those projects is not satisfactorily handled, not only will huge losses in foreign exchange be incurred, but our overall national economic development will be affected; therefore, prudence is particularly called for. I think that whenever conditions permit, we should use the method of inviting tenders from foreign firms in the import of major key projects. The advantages are as follows: 1) Inviting and submitting tenders is a form of trade which does not entail repeated negotiations and which involves merely transactions carried out strictly according to the conditions set by the tender-inviting party. Thus, in inviting tenders, we can place ourselves in a relatively dominant position, can have an adequate number of choices, and can thus avoid errors in decisionmaking. 2) We can effectively control market prices and can enjoy those terms which are economically most favorable to us, because tenders are submitted under the condition that the tender-inviting party asks for offers of prices and a tender-submitting party responds by offering prices on an once for all basis. Whether the latter can succeed in securing the transaction depends on the prices it offers and depends on whether the technological terms and so on it proposes are superior to those proposed by other competitors and are thus acceptable to the tender-inviting party. There is no room for bargaining. Thus, by fully taking advantage of competition among tender-submitting enterprises, we can select those terms which are most favorable to us. 3) By inviting tenders from foreign firms, we can more satisfactorily keep in touch with conditions prevailing on the international market and obtain knowledge of new scientific and technological developments in the world. 4) Because in inviting tenders we must rigorously examine the qualifications of tender-submitting firms, we can relatively clearly know the information position, productive capability, and so on, of the suppliers.

4. The method of inviting and submitting tenders can help curb certain unhealthy tendencies in the economic realm. With the gradual deepening of the reform of our country's economic structure, an ever-increasing number of industrial enterprises, mining enterprises, and building and construction units have been established by economies under various forms of ownership. Considering the example of the building and construction industry, in the Province of Henan alone, over 1 million peasants have joined this industry. Aside from doing construction work in their own province, they also go to other provinces and municipalities to undertake contracted construction tasks. Moreover, with the development of the production of commodities, with the further extension of the enterprises' decisionmaking power, and with the continuous increase in the supply of agricultural and industrial products, market competition has become increasingly more vigorous. In promoting the sale of products, some enterprises do not earnestly endeavor to improve operation and management, to raise product quality, and to develop new products, but rope in buyers and canvass business orders by improper means such as "establishing dubious personal relationships, getting in by the backdoor, entertaining clients, and bribery." These unhealthy tendencies both corrupt social conduct and perpetuate backwardness; their effects are extremely bad. On the other hand, making purchases or undertaking construction work by the method of inviting and submitting tenders is strictly based on economic-technological targets, product (or work) quality, prices, the operation and management standards and commercial reputation of the enterprises concerned, and so on; "the superior are chosen and assigned tasks." Thus, the backward can be more satisfactorily spurred on, the advanced can be more satisfactorily encouraged, and unhealthy tendencies in the economic realm can be more effectively curbed.

II

There are many varied prerequisites for the method of inviting and submitting tenders to be able to fully play its role in our country's national economy development. The principal ones are as follows:

1. There must be a "buyers' market" with a relatively ample supply of commodities and services. This is a prerequisite for ensuring the normal use of the method of inviting and submitting tenders. Under the condition of a "sellers' market" with an inadequate supply of commodities and services and with supply falling short of demand, the method of inviting and submitting tenders cannot properly play its role. In order to create such a "buyers' market," we must now in the first place vigorously develop the production of commodities and allow enterprises under various forms of economy to coexist and develop. While enabling the large state enterprises to play their key role, we must also develop a number of highly specialized collective and individually run small enterprises which supply parts and components to large factories and which provide society with various categories of specialized services which are commodities in nature. We must fully use foreign capital to operate enterprises, which will be joint ventures or financed by a single party. The existence of many varied forms of economy and the safeguarding of competition can help overcome that kind of inertia which is caused by monopolistic operation and can help promote the rapid

development of the production of commodities. Moreover, local or departmental barriers must be broken down. Every enterprise, whatever locality or department it belongs to, and whether it is run by the state or the collective, should be allowed to fully develop so long as it is legal. Thus, the scope of an enterprise's production and operation activities will not be limited to a single locality or city; an enterprise should put its ability to good use over the extensive market and compete against its rivals in the same occupation. Only thus can a larger quantity of better products be produced and can a "buyers' market" be created which will enable the method of inviting and submitting tenders to be more satisfactorily used.

2. The enterprises' decisionmaking power must be further extended, so that the enterprises can really become relatively independent economic entities embodying unity of responsibility, power, and interests. This is the basis for fully developing the role of the method of inviting and submitting tenders. If the state continues to exercise very rigid control over the enterprises, if the enterprises are not appropriately empowered to make decisions concerning production and operation in the light of market changes and according to the law of value, then they will not be able to vigorously take part in tender-submitting competition or to flexibly respond to invitations for tenders on their own initiative.

3. Sound legislation governing tender-inviting and tender-submitting must be enacted, and a complete set of rigorous procedures governing both aspects must be formulated. This will ensure the full development of the role of the method of inviting and submitting tenders. Inviting and submitting tenders amount to a relatively complicated economic activity. The complete process, ranging from inviting tenders, submitting tenders, opening sealed tenders, contract-signing, to the complete fulfillment of the contract, is connected with the interests of many parties and involves a number of other questions. The series of questions involved include: the publishing of an invitation for tenders; the stipulation of tender-submitting units' qualifications, of the cash deposit required, of how to inspect product (or work) quality for acceptance, and of the deadline for delivery or completion; the defining of the limits of power, responsibility, and interests of the tender-inviting party and the tender-submitting parties; and so on. Unsatisfactory handling of any link can affect the normal practice of tender-inviting and tender-submitting. The best way to solve this problem is to have the state formulate in a centralized way a complete set of rigorous tender-inviting and tender-submitting procedures and enact sound legislation governing tender-submitting.

CSO: 4006/250

FINANCE AND BANKING

RENMIN RIBAO COMMENTARY ON TREASURY BOND ISSUING MEASURES

HK220812 Beijing RENMIN RIBAO in Chinese 19 Dec 84 p 1

["Short" commentary: "New Measures for Issuing State Treasury Bonds"]

[Text] The State Council has decided to issue 6 billion yuan of state treasury bonds in 1985.

The repayment period of state treasury bonds issued the past few years has been comparatively longer, and their interest rate lower than that of bank deposits. In view of this, and in accordance with the principle of making things convenient for the people, the State Council has made great improvement in the issuing method by means of the interest rate lever. This will make the purchase of the state treasury bonds easier for the broad masses of people.

In 1985 more state treasury bonds will be issued than last year. This is because that on the one hand, the financial and economic situation of our country has not yet been fundamentally improved at present and the issuance of state treasury bonds is necessary in order to collect construction funds, since the insufficiency of funds is still a major problem in our economic construction. And on the other, since the income of the broad masses of staff and workers and peasants has greatly increased the past year or so, they have the ability to buy more state treasury bonds. The people's governments at all levels must further improve and perfect the issuing method and, on this basis, effectively strengthen leadership over this work, do a good job in propaganda work among the masses, and pay attention to implementing policies well. The principle of voluntary participation and acting according to one's capability must continue to be implemented in the purchase of the state treasury bonds.

The reform of the economic structure is being carried out smoothly in our country. The economic situation is very good. We hope that all departments, units, and the broad masses of people in both cities and countryside will enthusiastically subscribe for state treasury bonds so as to make more contributions to the construction of the four modernizations.

CSO: 4006/250

REFORM REQUIRES RATIONAL PRICING SYSTEM

HK071215 Beijing JINGJI RIBAO in Chinese 21 Dec 84 p 2

[Article by Gui Shiyong [2710 0013 6978]: "The Establishment of a Rational Pricing System Is the Key to Ensuring Success of Reform"]

[Text] The fundamental task of the reform of the economic structure is to establish a socialist economic system with Chinese characteristics and great vitality, and to promote the development of social productive forces. Invigorating the enterprises, particularly the large and medium-sized enterprises won by the whole people, is the key to realizing this task. In addition, the economic levers must be fully utilized to strengthen regulation of enterprise operation and management through the planning mechanism. Of the various economic levers, pricing is the most effective means of regulation and rational prices constitute an important condition for ensuring a dynamic, yet not chaotic, national economy. Therefore, the establishment of a rational pricing system has an important bearing on the healthy development and final success of the reform.

Price is an expression of value in the form of currency. In order to conscientiously follow and use the law of value, the essential point is to appropriately use the lever of pricing. Because the law of value was long neglected and for various other historical reasons, there is much confusion in our present system of pricing. The prices of many commodities reflect neither their value nor the relation of supply to demand. The irrational price system finds expression mainly in the following: inadequate price differentials for a given product with diverse quality; irrational price ratios between different commodities, particularly the relatively low prices for some mineral products and raw and semifinished materials; and the retail price of major farm and sideline products being lower than their state purchasing price. Such an irrational system of pricing has brought forth a series of adverse effects on the operation and development of the national economy.

First, it cannot correctly reflect and assess the performance of enterprises, which affects the close connection between the production and operation of enterprises and their economic benefits. Due to irrational prices, some enterprises can obtain considerable profits even without outstanding performance, while others cannot get the due profits although they have made

great efforts. As a result, without a common standard for judging the good or poor performances of enterprises, it is difficult to reward the advanced and to punish the backward and to implement the principle of distribution according to work among the workers and staff members. Although the second stage of substituting tax payments for profit delivery can mitigate such a contradiction to a certain extent, the problem cannot be fundamentally solved.

Second, with the growth of reform and the decisionmaking power of enterprises, there will be more funds not included in the budget and enterprises will try by every means to place their funds in the fields where they can get more profits. But the irrational price system cannot correctly guide the use of funds. Although energy and raw materials are the short-supply goods urgently needed in society, the low price and lower [word indistinct] of these goods cannot attract investment in this aspect. However, the enterprises vie with each other in manufacturing the products which are in abundant supply because these products are expensive and can bring in better profits.

This results in duplicated production and an enormous waste of funds and materials. Instead of alleviating the contradiction of a shortage of energy and raw materials, such a state of affairs intensified the contraction and hampers the undustrial structure and product mix. The irrational system of pricing also affects the consumption structure. For example, because of the low prices of energy and raw materials, it becomws difficult to urge the departments using them to take conservation measures, which leads to appalling waste.

Third, it affects the flow of commodity circulation between the urban and rural areas. The situation of "difficulty in buying and selling" is quite common in the rural areas at present. The irrational pricing system is one of the fundamental reasons for such a state of affairs. As the purchase price of some farm products is higher than the marketing price, those who sell these products often suffer losses instead of making profits. These people are unwilling to expand their business in these fields because the more they sell the more they lose. The irrational pricing system also affects the precision processing [shendu jiagong 3234 1653 0502 1562] of certain farm and sideline products. Although the price of the processed goods is several times that of the raw materials, those engaged in the processing work get little profit or even have losses. Therefore, it is difficult to encourage people to carry out precision processing.

Fourth, it affects the favorable turn in the financial situation of the state. Because the retail price of major farm and sideline products is higher than their state purchasing price and the price difference is subsidized by the state, the better yields in agriculture lead to a greater amount of financial subsidy, which reverses the normal cycle of the development of agricultural production and the growth of state revenue. Now that financial subsidies account for around 30 percent of state revenue, it would be an unbearable burden to further increase financial subsidies.

The above-mentioned facts show that the irrational price system has in various aspects hampered the health development of the economy and caused an enormous waste of social labor. The reform of the price system is thus imperative. As the enterprises have greater decisionmaking power and as they have genuinely become relatively independent economic entities and producers and managers of socialist commodities that assume sole responsibility for their profits and losses, the role of price regulation will be more conspicuous and the reform of the current irrational price system will be a problem demanding prompt solution. As a matter of fact, in our efforts made to gradually enliven the economy, rational prices are the most important means for ensuring a dynamic, yet not chaotic, economy. If we fail to reform the price system, it will be difficult to carry out reform smoothly and to attain fruitful results in reducing the scope of mandatory planning and extending guidance planning, in reforming the wage system, and so on. Viewed in this way, the establishment of a rational pricing system is the key to the success or failure of the reform of the entire economic structure.

The irrational system of pricing is closely related to the irrational system of price control. The overcentralized system of price control is bound to lead to subjectivism in fixing prices. Therefore, in readjusting prices, we must reform the overcentralized system of price control, gradually reduce the scope of uniform prices set by the state, and appropriately enlarge the scope of prices floating within certain limits and of free prices. In fact, this is also the way to reform the irrational prices of certain products, because rational prices can be fixed in light of market supply and demand following the relaxation of price control over certain products. As the level of economic development and the people's living standard in China are relatively low, the coefficient of supply elasticity and demand elasticity is also small. A slight decrease in the output of certain products leads to short supply, while a slight increase leads to sluggish sales. Because the expansion of production capability in some products, such as steel, timber, and other raw materials, needs a long cycle, the role of prices cannot stimulate the increase of supply. We are not doing pioneering work, so it will still be difficult to maintain overall balance in the supply and demand of the major means of production and consumer goods for a fairly long period of time. Under such circumstances, in order to regard price control as a means to stabilize and regulate the economy, it is necessary for the state to set uniform prices for some major means of production and consumer goods within a certain range. However, we must also take note of the following: 1) The range should not be extensive and decentralized management should be exercised; 2) the current overcentralized system of price control should be avoided; and 3) readjustment should be made promptly so that prices can reflect the relation of supply to demand and not differ greatly from market prices. While maintaining the necessary uniform prices set by the state, it is necessary to enlarge the scope of prices floating within certain limits and of free prices respectively for the products retained and marketed by the enterprises themselves and the products and small commodities which can generally attain a balance of supply and demand, so that prices can respond rather quickly to changes in labor productivity and in the relation between supply and demand and can enliven the economy.

As the reform of the price system affects every household and the national economy as a whole, we must be extremely prudent, formulate a well-conceived, feasible program based on the growth of production and the capability of state finances, and then carry it out in a planned and systematic way. The principles guiding the reform are: First, we should readjust irrational price ratios on the basis of the exchange of equal values and changes in the relation between supply and demand, lowering or raising prices as the case may be, and should not unreasonably raise the price of all products. Second, when the price of some mineral products and raw and semifinished materials is raised, the processing enterprises must substantially cut down consumption so that the increased production cost resulting from the higher price of such products and materials can be basically offset within the enterprises, with only a small part of the increase being borne by the state through tax reductions and exemptions. This will avoid a consequent rise in market sales prices of manufactured consumer goods. Third, in solving the problem of the state purchasing farm and sideline products at prices higher than their selling prices and in readjusting the prices of consumer goods, we must adopt effective measures to ensure that the real income of urban and rural inhabitants does not go down as a result of price readjustments. Instead, with the growth of production and improvement in economic results, the pay of workers and staff members will have to be raised gradually. In summation, these principles indicate the following: First, the nature of the price reform lies in readjusting the irrational price ratios and not generating a tendency toward a general rise in prices due to inflation. Therefore, all enterprises should regard the reform of the price system [word indistinct] the pressure and motive force which impels them forward, improve their operation and management, upgrade their production technology, try to offset within the enterprises the increased production costs resulting from the price readjustment of certain products, and never try to raise the price of their products correspondingly. Otherwise, it will be impossible to reform the irrational price ratios and to attain better economic results. We must resolutely prevent and put an end to the practices of boosting prices at will by taking advantage of the reform, deliberately generating a tendency toward a general rise in prices, disrupting the socialist market, and harming the interests of the state and the customers. Second, we must ensure that the people's actual standard of living is not degraded. When the prices of commodities which are related to the people's livelihood are to be readjusted, relevant measures should be taken in wages, social relief funds, savings interest rates, and so on, so that the actual living standard of the inhabitants is now lowered due to price readjustments, but gradually improved with the development of production and attainment of better economic results. Only by unswervingly following the spirit of the "Decision of the CPC Central Committee on Reform of the Economic Structure" and carrying out profound and meticulous work can we gradually establish a rational price system and a rational pricing control system and promote the deepgoing economic reform and the development of the national economy.

FINANCE AND BANKING

STATE COUNCIL DECISION ON CONSTRUCTION LOANS

OW221616 Beijing XINHUA in English 1435 GMT 22 Dec 84

[Text] Beijing, 22 Dec (XINHUA)--From 1985, financial allocations for capital construction within the state budget will be replaced with loans from the People's Construction Bank of China, XINHUA learned from the bank here today.

The State Council decision is aimed at raising economic efficiency through interest rates and other means, said bank official.

This is a major reform in the management of capital construction investment, said the official. Free financial allocations in the past made capital construction departments and units rely solely on the state, causing big increases in investment, long construction periods and waste, he said.

In recent years the bank has tried out loans for some capital construction projects. This speeded up the turnover of working funds, improved quality, shortened the construction periods and saved money, he said.

According to new regulations worked out jointly by the State Planning Commission, the Ministry of Finance and the People's Construction Bank of China, all construction units undertaking projects listed in the state capital construction plan within the budget are entitled to sign loans contracts with the construction bank.

As for Chinese-foreign joint ventures, it is up to the Chinese partners to borrow from and repay to the bank their own investment.

The bank will take part in feasibility studies for capital construction and appraise the projects. The bank may examine and supervise the use of the loans and reward or punish the borrowers.

CSO: 4006/250

FINANCE AND BANKING

COUNTRY ABSORBS FOREIGN FUNDS TO DEVELOP AGRICULTURE

OW252238 Beijing XINHUA Domestic Service in Chinese 0851 GMT 22 Dec 84

[Text] Beijing, 22 Dec (XINHUA)--According to updated information provided by departments concerned under the Ministry of Agriculture, Animal Husbandry, and Fishery, so far the ministry has signed contracts with the World Bank, the United Nations' financial institutions for agriculture, and foreign governments on 78 projects, absorbed a total of \$700 million in foreign capital, and introduced many advanced technologies and equipment from abroad, thus making positive contributions to accelerating the modernization of the country's agriculture.

Since the 2d Plenary Session of the 11th CPC Central Committee, the Ministry of Agriculture, Animal Husbandry, and Fishery has earnestly carried out the policy of "opening to the outside world and enlivening the domestic economy," and made utilizing foreign capital an important channel for raising funds. Over the past few years, the ministry, by various means such as foreign credit, aid given gratis, joint ventures with other countries, and compensation trade absorbed many foreign funds. It has also introduced in batches instruments, equipment, and advanced technologies for use in a wide range of areas, including agricultural development, soil amelioration, rubber production, animal husbandry, aquatic production, agricultural education, and scientific research. At present, many of the projects have already paid off. In the past, due to the lack of funds, the vast saline-alkaline land in north China was untapped. In 1981, the Ministry of Agriculture, Animal Husbandry, and Fishery successively obtained loans totalling \$85 million from international financial institutions, such as the World Bank, the International Fund for Agricultural Development, and the World Grain Planning Agency to tackle 3.5 million mu of saline-alkaline land in 12 counties in Henan, Hebei, Shandong, and Anhui. In the past 2 years, agricultural production and income in these areas have increased by large margins.

In addition to utilizing foreign funds, the ministry has also introduced many advanced instruments, equipment, and technologies to upgrade the level of the country's agricultural education, scientific research, and production. Since the new agricultural remote-sensing technology was introduced, the country has remarkably quickened the pace of and improved the precision in the work

of agricultural resource general survey, estimation of agricultural crops, plant disease prediction and survey, and telemetering of the water and salt content of soil and soil erosion. Moreover, the ministry has also used foreign funds to buy tens of millions of dollars worth of instruments for over 10 agricultural colleges and scientific research institutes, strengthened international scientific and technical exchanges and cooperation, and cultivated experts to create conditions for the development of the country's agricultural intellectual resources.

CSO: 4006/249

MINERAL RESOURCES

BRIEFS

MINERAL DEPOSITS IN GUANGXI--Nanning, 9 Jan (XINHUA)--Deposits of various metals and oxidized manganese have been found in the Guangxi Zhuang Autonomous Region. One deposit of mixed silver, antimony, lead, zinc and cadmium is located in northern Guangxi. Another, with estimated reserves of 1.3 million tons of tin, zinc, lead and antimony, was found at Nandan, in the northwest of the region. The mountainous south China region has deposits of 96 of the world's 160 known minerals. Its reserves of tin and manganese are among the largest in China. Deposits of bauxite with reserves verified at 200 million tons have been found in Guangxi's Pingguo County in recent years. [Text] [Beijing XINHUA in English 0707 GMT 9 Jan 85 OW]

CSO: 4020/76

INDUSTRY

BRIEFS

SHANDONG 2D-LIGHT-INDUSTRY PRODUCTION IMPROVEMENT--In the 1979-1983 period, the results of 38 scientific research experiments of the provincial second light industrial front were awarded by the Ministry of Light Industry, and 43 were awarded by provincial authorities. Over the past 5 years, the front put 2,800 new projects into production on the average in each quarter and added more than 13,000 new varieties of products, creating 2.851 billion yuan of output value in each quarter, which amounted to 16.1 percent of its total output value in the corresponding period. In each quarter during the period, the front also popularized more than 8,500 items of self-improved technology. On 19 December, the provincial second light industrial department commended 104 outstanding scientific and technological experiments, 50 advanced units, and 79 advanced individuals emerging in scientific and technological work. [Excerpts] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 19 Dec 84 SK]

CSO: 4006/211

DOMESTIC TRADE

RETAIL SALES INCREASE MARKEDLY IN 1984

OW280236 Beijing Domestic Service in Mandarin 1200 GMT 22 Dec 84

[Excerpts] This year, China's retail sales have increased by a big margin. It is expected that by the end of the year, the total volume of retail sales will reach 334.5 billion yuan, an increase of 17.4 percent over last year. Of this total, 280 billion yuan will be in consumer goods' sales. Not only are sales' increases witnessed in all categories of commodities, but the needs in consumer goods are also undergoing constant change.

First, in food consumption, the trend is to higher quality, more variety, and better nutrition. This year's total volume of food retail sales is 155 billion yuan, an increase of 18.6 percent over last year.

Second, in clothing, the trend is to more variety. Spurred by this year's reforms in clothing, the people's dress habits have undergone change. Their demands for ready-made garments and for more variety and colors are growing daily. The gaps between the cities and the countryside in clothing are gradually narrowing.

Third, in durable goods, the trend is to modernization. The demand for durable goods, particularly new products, is fast rising this year. Compared with last year, sales of television sets have increased 51 percent; cassette recorders 53 percent; washing machines 85.1 percent; and refrigerators 200 percent. More and more people want to buy gold and silver ornaments, and high quality cosmetics.

However, the current consumer market is not without problems. A salient one is that the manufacturers have failed to catch up with the people's changing demands in consumer goods. Consequently, the supply of quality and famous-brand products has failed to meet demand; while substandard and over priced commodities have become unsaleable and overstocked. Another serious problem is unbridled overt, or covert, price hikes by some commercial enterprises. Measures must be taken to check this phenomenon.

CSO: 4006/249

FOREIGN TRADE AND INVESTMENT

BANK OF CHINA'S KEY ROLE IN JOINT VENTURES DESCRIBED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 5, 27 May 84 pp 11-12

[Article by Zhang Bingwen [1728 3521 2429]: "Enliven Credit and Advance the Development of Joint Ventures"]

[Text] In 1983, along with the thorough implementation of China's open-door policy, the continuous work to perfect economic regulations regarding foreigners and the clear definition of favorable measures regarding foreign investment, there appeared a new situation reflecting significant developments in China's use of foreign capital to set up joint ventures. Following the development of joint ventures, the Bank of China also made significant achievements in providing credit to joint ventures. The primary characteristics of the development of this business last year were not only manifested in volume increases, but even more importantly, they were also manifested in structural changes. The first of these changes was that not only were there increases in the participation of tourism and other kinds of non-productive industries in the credit programs but the participation of productive industries, particularly heavy industries, also began to increase. Second, the scope of the credit programs not only included small-scale enterprises but also began to include a few medium- and large-scale enterprises. Third, within the import credit programs, there were increases in the proportion of advanced and complex technology, and there were improvements in enterprise management. Fourth, with respect to the joint-venture targets of the credit programs, not only was there capital from areas such as Hong Kong and Macao but a few European and American firms also began to come to China to invest in and manage new factories. These new enterprises require a great deal of investment. Their lifetimes are long, their technology complex, their management advanced, and their demand for quality of service high. The Bank of China is the national bank specializing in foreign exchange that provides service to joint ventures. It has done a great deal of work toward advancing and supporting the development and establishment of joint ventures, has enthusiastically adopted measures to enliven credit and has improved the quality of its service. At present, the realm of service is even broader and offers a greater variety of loans. It has enlivened its work methods, and its service is now even more internationalized. The Bank of China has attained relatively favorable results from its implementation of these measures. It has come to play a definite role in advancing the development of joint ventures.

1. It Has Expanded the Scope of Credit.

In accordance with the many different forms of investment by foreign businesses in China, the Bank of China has expanded the range of services in its credit business. The Bank of China has provided loans to the Sino-foreign joint ventures that have been organized and established in accordance with China's Law Regarding Joint Ventures. In addition, it has developed its business of providing loans to these joint ventures. In the special economic zones, the Bank of China has also provided loans to foreign investment enterprises that have been established and carried out operations in accordance with China's regulations. At present, these credit programs have been developed to include over 120 enterprises, including those in the tourist industry, the service sector, industry, commerce, transportation and the agricultural, husbandry and fishing industries. Some of these belong to the realm of production; others belong to the realm of product circulation. Some are trading units; others are not. There are small and medium-size projects, and there are large-scale ones. Some belong to the production departments, while there are also those that belong to the finance, leasing and other types of non-productive departments. Along with the continuous expansion of the realm of credit, the total volume of credit has undergone a vast increase. The volume of foreign currency loans has already reached \$50 million, and the volume of renminbi loans has reached \$130 million. These represent 80 percent and 4-fold respective increases over the same period last year.

2. It Has Adopted Measures To Enliven Credit.

In accordance with the various needs of the different enterprises, the Bank of China has done a great deal of work to enliven its credit service. Within the past year, the Bank of China has thoroughly implemented the guiding principles of opening up to the outside world and enlivening the domestic economy. It has strived to open up and develop its work in the new areas of foreign exchange loans. Beginning with the improvement of the quality of its service, it has simplified loan procedures, increased the forms of credit and enlivened its methods of providing loans.

The products of Sino-foreign joint ventures and foreign investment enterprises directly confront [competition on] the international market, and their need for funds has changed a great deal. In accordance with this distinguishing feature, the Bank of China has made a comprehensive effort to simplify loan procedures. After jointly owned and operated enterprises as well as foreign investment enterprises have opened savings accounts with the Bank of China, the first time that they use the bank's credit, they can rely on the approval of the relevant organization of the Chinese government for guarantees. The industrial and commercial administrative bureaus can check their registration documents, joint contracts and company regulations, feasibility study reports and other documents, relevant documents for approval to carry out capital construction projects in excess of those already permitted by the government and other essential guarantee documents that the board of directors needs to provide to its local Bank of China office in order to apply for a loan. When the Bank of China receives these documents, it will review and investigate them. If it believes that they are basically feasible, it will then be able to

provide a loan. Just as there will be a variety of loans to serve the many different enterprises and their different needs, there will be many different ways in which to arrange foreign currency loans. If the enterprise wants to borrow renminbi, the bank can provide renminbi. If the enterprise wants to borrow foreign exchange, the bank can provide foreign exchange. For foreign exchange loans, the enterprise will be able to choose from Hong Kong dollars, American dollars, Japanese yen, British pounds, marks and other currencies. Interest will be calculated on the basis of the currency chosen by the enterprise, and the interest will also be paid in that currency. After the borrowing enterprise and the bank have established a credit relationship, the bank may lend to the enterprise under different conditions. If there is a plan for borrowing funds, the bank may lend funds to the enterprise in accordance with that plan. Where there is no plan, but there are retail contracts and orders for goods, the bank can issue temporary credits; if the borrowing enterprise encounters difficulties in paying back the temporary funds, the bank can provide temporary credits for a fixed period of time, in order to help the enterprise get through its period of difficulty.

When the Bank of China is providing loans to joint ventures, it can divide its loans between revolving lines of credit and fixed-capital loans in accordance with differing conditions such as the size of the enterprise and the project, whether capital construction is being undertaken, the use differential and the length of time for the completion of the project for which the loan is needed. For some projects, an enterprise can use a mix of foreign government loans, credits bought from foreign banks and foreign exchange loans. For others, a mix of fixed capital loans or capital construction loans and revolving lines of credit for circulating funds can be used. The Sino-Swedish Pharmaceutical Company, Ltd., the Great Wall Restaurant and others have all used banks in the relevant countries to provide us export credits. The Shanghai-Bell Telephone Equipment Manufacturing Corporation has used fixed-capital loans and credit from circulating funds simultaneously. These loans have come to play a very important role in the establishment of joint ventures.

In the establishment of Sino-foreign joint ventures and foreign investment enterprises, we have a number of times used internationally accepted methods of raising funds, in which the enterprises provide only what they need to collect capital, and they rely on bank loans for the rest of their funds. With respect to the credit needs of their enterprises, the Bank of China has, for the most part, adopted internationally practiced means of providing project loans. After an enterprise gathers together what it needs to collect its capital, it can apply to the bank for loans to meet its other investment needs, including fixed-capital investment and circulating-capital investment. As for the proportion set for collected capital and loans, it must start out being controlled at a ratio of 1:2. At present, in accordance with the needs of joint-venture enterprises, especially enterprises of a large scale and of complex technology, and in accordance with the repayment capacity of each enterprise, the proportion of debt of an enterprise may be increased appropriately.

Joint ventures that borrow from the Bank of China must provide a certain mortgage guarantee or credit guarantee. When the Bank of China receives the

mortgage guarantee, it will fully consider the actual considerations of the enterprise, and it must be flexible. Credit guarantee materials are not limited to material goods. The borrower's credit rights, mortgage rights and property rights may be used as credit guarantees.

The Bank of China's flexible methods discussed above have received favorable criticism from the enterprises.

3. It Has Expanded the Kinds of Services It Provides.

The Bank of China is the bank of significance to joint ventures. Proceeding from the development of mutual economic benefit, the Bank of China is giving full play to the superiority of expanded international relations and has expanded its service to joint ventures. Not only has it provided capital support, it has also provided economic consulting and information consulting services to enterprises. Before the establishment of joint ventures, it acts as a financial advisor to both investing parties and helps them resolve any problems that arise in the course of construction. Last year, the Bank of China received only 2 groups of foreign joint-venture inspection teams, but it received over 10 foreign customers for consulting services. The bank had many more domestic customers for its consulting services. According to the bank's comprehensive statistics, there were dozens of groups each month. The kinds of consulting questions answered included legal, economic, banking and marketing ones. This activity played an important role in the establishment of joint venture enterprises. After the establishment of the joint ventures, the bank gave full play to its professional role and helped the enterprises strengthen their economic accounting and speed up their turnover of funds. It helped borrowing enterprises by introducing them to customers, thus expanding their markets. This activity played an important role in the development of joint ventures.

In the course of helping to establish and develop joint venture enterprises, the Bank of China has done a great deal of work, but this is only the beginning. From this day forward, under the guiding principles of mutual support and mutual development, the bank will do an even better job in its service work in order to make an even greater contribution to the development of joint ventures and to improving economic results nationwide.

12582

CSO: 4006/20

SPECIAL ECONOMIC ZONES

RENMIN RIBAO DISCUSSES DEVELOPING SPECIAL ZONES

HK040407 Beijing RENMIN RIBAO in Chinese 29 Dec 84 p 2

[Article by reporter Qu Qinglin [2962 1987 2651]: "What Are the People of the Special Zones Thinkg About?"]

[Text] At the approach of the new year, what is in the minds of people in the special zones of Xiamen, Shantou, and Shenzhen? What are their plans?

For the special economic zones, the year just coming to an end has been one of taking off and flying high to achieve rapid growth and optimum results. At the end of the year, capital construction investment by the Huli industrial district of Xiamen reached about 70 million yuan, nearly 400,000 meters [as published] of housing of various types was built and a total of 37 contracts for the use of foreign capital and 28 contracts for joint-venture domestic enterprises were signed. Despite its relatively late start, the Shantou Special Economic Zone has built up a certain capacity for production. Continuing its big strides forward, Shenzhen has chalked up a figure of "1.5 billion" in three fields. Industrial output value, double that in 1983, has reached 1.5 billion yuan. Capital construction investment has reached the 1.5 billion mark, with an average monthly building area of 240,000 square meters completed. Retail sales for social commodities have broken the 1.5 billion yuan mark heading for 2 billion yuan.

But the problem now facing the special zones is how to maintain the high rate of growth achieved and how to maintain the special zones' reserve strength for development. In discussing this problem, the standing committee of the Shenzhen City CPC Committee has noted that the special zone cannot be just built so as to give an appearance of prosperity. An important factor is internal construction that vests it with great industrial strength. Such industrial strength should take the form of real knowledge-intensive and technology-intensive industries, with products completely geared to international market needs. The special zone industrial econmoy must be of a type outwardly oriented and must not be a case of taking over outdated technologies and equipment on the international market, with product turned out only to be competitive in the domestic market. As far as the special zones of Shenzhen, Xiamen, and Shantou are concerned, the completed projects show a lack of new industries and of technologies which are being newly developed and hotly pursued internationally. If this problem is ignored, the special

zones cannot really give full play to its role of "four windows." The Shenzhen Special Zone is determined to do all in its power to develop its industry and to import new industrial technologies and projects in 1985.

In properly building up the special zone industry and importing advanced technologies and projects, the leaders concerned must be farsighted. Some businessmen from Xiamen, Shantou, and Shenzhen hold that we must continuously improve special zone investment environments. In times of need, we may yield a share of the domestic market. Now 30 percent of special zone products are allowed to be sold at home. But due to procedures for examination and approval and control at every level, this rule has not always been properly enforced. This is also a factor that must be removed.

To maintain great reserve strength and develop at a high speed, the immediate task for special zones now is to upgrade existing enterprises and strive to develop new products. Some enterprises in the processing business with materials supplied by others, such as those already in Shantou, Xiamen, and Shenzhen, cannot always remain unchanged at the stage of processing. They must be reformed and upgraded in light of international market needs and try to develop new products as quickly as possible. As far as plastic products, cameras, taperecorders, and so forth are concerned, if no effort is made toward improvement and generation replacement, they will very quickly lose sales and become backward. The managers of the Shenzhen Technology Development Company under the CAAC [Civil Aviation General Administration of China] said that they want to double the company's output value in 1985, from 50 million yuan to 100 million yuan not by relying on building new products but chiefly by relying on upgrading the existing undertakings and on developing new products.

"In maintaining the high rate of growth in special zone construction and development, the special zone leaders and commanders must be further emancipated in their thinking and cannot in the least rest satisfied with the status quo. Nor can a new state of inflexibility be allowed." This was specially stressed by Liang Xiang, secretary of the Shenzhen City CPC Committee and mayor. He was of the opinion that in attracting foreign capital in light of the actual conditions of Shenzhen, we must newly develop many ways and various patterns. Talent is the most important factor. Therefore, we must also make a breakthrough in using talent from elsewhere and training skilled personnel.

CSO: 4006/249

TRANSPORTATION

SERIOUS TRAFFIC CONGESTION ON HENAN'S HUANG HE BRIDGE

HK230401 Zhengzhou Henan Provincial Service in Mandarin 2300 GMT 22 Dec 84

[Excerpts] On 20 December, the traffic safety leadership group for the old railroad bridge over the Huang He at Zhengzhou invited the provincial economics commission, public security department and communications department to study specific ways for keeping traffic flowing freely over the bridge.

In recent years, in the wake of the development of the economy and the rapid increase in passenger and freight traffic, there has been very serious traffic congestion on the old railroad bridge over the Huang He at Zhengzhou. From 12 to 14 December, there was congestion for 3 successive days, with vehicles backed up in queues 15 kilometers long on each side of the bridge. This seriously affected communications and transport and industrial and agricultural production in Henan and fraternal provinces.

To insure smooth traffic flow and safety during the winter and the two festivals, the departments concerned will take the following measures:

1. From now to next March, no major repair work will be done on the bridge, and there will be basically no traffic interruptions on the bridge.
2. Under the premise of insuring safety, the time allowed for road vehicles to cross the highway-railroad level-crossing at the south of the bridge should be extended as far as possible. The provincial CPC committee and government have also decided to build a road flyover over the railroad there.
3. Improve the method of collecting tolls from vehicles on the bridge and cut down the time needed for this.

These measures are now being implemented.

CSO: 4006/211

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

CHANGE IN U.S. THIRD WORLD DEBT POLICY LIMITED

HK171337 Beijing SHIJIE JINGJI in Chinese No 10, 10 Oct 84 pp 44-48

[Article by Ke Juhan [2688 1446 7281], Liu Taichen [0491 1132 1057], and Peng Zhibin [1756 5268 2430] of the Institute for the Study of Contemporary International Relations: "The Reagan Administration's Policy Readjustment on Third World Debt"]

[Text]

I

The Third World debt problem is a conspicuous one in the world economy and world politics today. Since President Reagan came to power, between the second half of 1982 and 1983 in particular, a marked readjustment has been made in the policy concerning this issue. Prior to August 1982, the Reagan administration adopted a policy of a strong conservative coloring in dealing with the debt relations between the United States and the Third World. It opposed the increased providing of government low interest rate loans to developing nations should be derived from credit loans from commercial banks and direct private investment, and laid particular stress on the role of capital funds provided by U.S. transnational corporations in developing the Third World economy. The Reagan administration held that providing capital funds for the Third World nations through the channel of "international cooperation" would not achieve the expected "results"; it negated international "multilateral cooperation" and impeded the "North-South talks." It opposed increasing the amount of funds apportioned to member countries of the IMF, and cut down the amount of funds the United States provided for the International Development Association [IDA] (an adjunct of the World Bank specializing in giving preferential loans to some Third World nations which are in the most difficult situation) from 42 percent to 27 percent of the total funds of the IDA. Regardless of the strong opposition of the Third World debtor nations, it implemented a high interest rate policy, keeping interest rates high in the international monetary market and increasing the burden of interest for the debtor nations and their difficulties in raising funds in emergencies. It made more and more debtor nations face the danger of bankruptcy, while opposing relaxation of the conditions for alleviating the difficulties of the debtor nations. In short, in regard to handling its debt relations with the Third World nations during its first phase, the Reagan administration in fact implemented a hard line in reducing the role of the U.S. Government, opposing international cooperation and paying no heed to the normal requirements of the Third World nations.

However, the Reagan administration has gradually readjusted the aforesaid policies since August 1982, and the chief expressions of this are:

1. The Reagan administration first took action to "rescue" such debtor nations as Mexico and Brazil. After Mexican Secretary of Finance and Public Credit Silva Herzog's visit to the United States, the Reagan administration, in a departure from its normal behavior, agreed to promptly provide a down payment for oil and a credit loan for agricultural produce totaling \$2 billion and supported the Bank for International Settlement [BIS] in providing an emergency loan of \$1,852,000,000 for Mexico, half of which was committed by the United States. In 1982, Reagan even went to Brazil himself, and decided to provide Brazil with a loan of \$1.2 billion as a "bridging loan" (a transitional emergency loan) for 3 months before the arrival of the "rescue mission" sent by the IMF. At the same time, the Reagan administration has on many occasions cut the federal discount rate, enabling the gradual lowering of interest rates in the international monetary market. The Reagan administration has also repeatedly urged U.S. commercial banks to continue to provide loans for Third World nations, so as to avoid an excessive reduction in credit.

2. Capital funds have been provided for developing nations through international "multilateral cooperation." In December 1982, U.S. Secretary of the Treasury Donald Regan made a surprising statement, declaring acceptance of the proposal of Western nations on carrying out "multilateral efforts" to deal with the international debt crisis and of the advocacy of Western nations of improvement in the loan-providing capability of the IMF, both of which the United States formerly opposed, and proposing for the first time to set up a new \$1.2 billion emergency fund. In February 1983, the IMF called a meeting, at which the United States actively supported the IMF decision on increasing its total capital funds by 47.4 percent, that is to the sum of \$98.5 billion, to improve its loan-providing capability. In addition, the United States agreed to increasing the sum for the "General Agreements To Borrow" of the "group of 10" which could be provided for Third World nations from \$7 billion to \$19 billion. By these two decisions, the United States is committed to new obligations of \$8.4 billion.

3. Its attitude toward the "North-South talks" is more flexible than before. The fund transfer issue has been one of the most important contents of the "North-South talks." As a result of the shifting of crises onto others on the part of Western industrial nations, the economy of developing nations has universally worsened, and the foreign exchange crisis is deepening further. The developing nations are marking still stronger demands for "North-South talks," requiring the Western industrial nations, headed by the United States, to increase low interest rate loans for developing nations, and to reconsider the heavy debt burden of developing nations. However, because of the rigid opposition of the United States, and the hindrances of all kinds it caused in convening such a meeting, the Cancun Conference made no progress whatever on the "North-South talks." But in March 1983, Reagan himself wrote a letter to Bangladesh top leader Lieutenant General Ershad, expressing his willingness to adopt "an important but magnanimous measure," namely, "agreeing to hold the "North-South talks" "without first holding a preparatory meeting to determine the agenda."

[HK171339] 4. The Reagan administration has approved the overall handling of the problems of international debts, international trade and global economic revival. During the Williamsburg seven-nation economic conference of heads of state in May 1983, Regan and other important personages of the U.S. Government spoke on many occasions, acknowledging that banking and trade were closely related to each other and advocating that Western countries should relax their control over imports of Third World nation commodities so that they might improve their ability to repay debts through increasing their exports. The United States also held that problems such as international debts and trade could be handled well, even under the condition of the revival of the world economy, advocating that the emphasis of the policy of economic readjustment of Western countries should be laid on "noninflationary economic growth" as a "primary task," so as to solve the international debt problem on a longer-term and more healthy and complete basis.

II

The Reagan administration's readjustment of the afore-mentioned policies has its profound economic and political background. Basically, it is to safeguard the overall interests of U.S. monopoly capital and the capitalist system.

1. Preventing the Third World debt crisis from pounding at the international banking system. During the 1970's, the developing nations incurred excessive external debts as a result of stepping up the developing of their national economies and paying the evermore expensive prices for oil and their mistakes of policy (holding that it was favorable to raise loans under the condition of inflation, accepting loans from the Western countries at high interest rates). In 1970, the total amount of external debts was \$100 billion, and the interest and repayment of the principal involved was only \$9 billion. In 1980, the total amount of external debts had risen to \$446 billion, and the sum for interest and repayment of principal had grown drastically to \$87.9 billion, increasing by more than three times and eight times, respectively. However, the major debtor nations at that time were some big "new rising industrial nations" of the Third World, their economic development was rather fast, and they had a comparatively good reputation for repaying their debts; therefore, despite the fact that the debt crisis was drawing near, no serious attention was attracted. Since 1981, there has been a drastic change in the situation. On the one hand, the external debts of developing nations have continued to grow rapidly. According to an estimation of World Bank Director (Krausen) [ke lau sen 0344 0520 2773] in 1982, the external debts of the Third World amounted to \$700 billion. Leaving aside short-term debts totaling \$170 billion, of their \$530 billion long-term debts, \$350 billion was owed to Western commercial banks. The total funds provided for the Third World by front-rank U.S. commercial banks, including Citicorp and Chase Manhattan, have exceeded the entire share capital of each. On the other hand, the external conditions for developing nations to repay their debts have rapidly worsened. For example, the Western industrial nations, such as the United States and West European countries, have implemented a tightening policy to deal with inflation, which has caused a drastic rise in the interest rates for international credit and a drop in foreign aid for developing nations; exports of developing nations have dropped radically under the blow of the grave economic

crisis of the West, and prices for raw materials have dropped to the lowest postwar point; and the continuous drop in oil prices has resulted in a sharp reduction in petro dollars and led to a greater strain on international credit capital. All this has bogged down the developing nations in the dilemma of "facing difficulties in raising new loans and repaying old debts." A grave debt crisis, unprecedented in history, burst out finally in Mexico, Brazil and Argentina. The debts of a few nations, such as Mexico, involved more than 1,400 of the world's banks (the majority in the United States), making the international debt problem at that time an "explosive" situation. Therefore, if this situation had not been promptly changed, the large banks in the United States and the whole banking system of the capitalist world would have suffered a tremendous pounding, which the Reagan administration is undoubtedly trying its best to avoid.

2. Safeguarding important U.S. financial interests in Latin America. Latin America is the area in which U.S. banks first made their overseas expansion. Since the early 1970's, the Bahamas and the Cayman Isles have become a powerful new overseas banking center of the United States, a base for conducting banking services for Latin America and other areas. With the rapid development of this new banking center of the United States in Latin America, by the end of the 1970's, 66 percent of the bank branches, 67 percent of the capital, 60 percent of the loans, and 71 percent of the deposits of U.S. banks in the Third World had been concentrated in the Latin American area. As a result, the income from overseas banking had grown rapidly. For example, of the 10 largest U.S. transnational banks, 5 of them had overseas incomes exceeding half their total incomes at home and abroad, while Citicorp and Chase Manhattan had overseas incomes accounting for more than 70 percent of their total incomes. Since the beginning of the 1980's, the U.S. Government and commercial banks have stepped up the pace in providing loans to the Latin American area. The United States is the biggest creditor nation in regard to the more than \$200 billion in loans provided to Mexico, Brazil and Argentina. However, since August 1982, the biggest debt crises have exploded successively in the Latin American area, causing direct danger to the financial interests of the United States in this area. Suffering the biggest blows have been five or six of the biggest U.S. transnational banks, such as Citicorp, Chase Manhattan, the Bank of America, Morgan Guarantee Trust Co. of New York, Manufacturers Hanover Trust Co., and New York Chemical Bank. This has directly threatened the basic interests of the monopolist financial groups on the East and West Coasts of the United States, such as the Morgan, Rockefeller, and Bank of America groups. Reagan's readjustment policy is actually to help the U.S. monopolist banking groups tide over the difficulty.

[HK171341] Safeguarding U.S. economic and strategic interests in the Third World. Economically, the United States has made good profits through providing loans in large sums since the 1970's. Up until October 1982, the annual interest paid on the loans by the Third World grew from \$3.3 billion to \$46.5 billion, most of which was paid to the United States. Moreover, most of the loans provided to the Third World are used in exploiting their natural resources and developing their national economies, which has in turn helped increase exports of U.S. commodities and technological installations. In the latter half of the 1970's, the annual average growth rate in export volumes

to developing nations was 30 percent, almost double the figure for other industrial countries. At present, 40 percent of the total volume of U.S. exports are to the Third World. One out of every 20 workers in U.S. manufacturing industry and 1 out of every 5 acres of land are producing for the Third World market. In addition, between 40 and 50 percent of U.S. imported commodities are provided by the Third World, and some of its strategic raw materials are imported entirely from the Third World. Not long ago, U.S. Secretary of State Shultz said that since the mid-1970's, the gross national product of the Third World has surpassed the total figure for the Soviet Union and Eastern Europe, and "its markets are decisive for the economic growth of the West." However, with the worsening of the debt problem, the economic growth rate of developing nations has dropped by more than 50 percent over the past few years, and there is a standstill in the growth of imports, which has brought grave problems to the U.S. economy. For instance, according to the U.S. COMMERCE REPORTS, if the Latin American countries should get in overall arrears in paying their debts, the U.S. annual export volume will drop to \$38.3 billion, and its gross national product will drop by nearly \$70 billion, with the unemployed population growing by 1.1 million, and an expansion of the federal deficit to \$26.4 billion. The United States is worrying that if things go on like this, the economic difficulties of the United States and the West will also be "aggravated and prolonged." Politically, the deepening of the debt crisis will inevitably lead to the instability or fall of governments of debtor countries, intense social turbulence, and strengthening of the trend of moving away from the United States, which will provide a good opportunity for the further expansion of the Soviet Union in this area, while it will be unfavorable to safeguarding the vested interests of the United States in the Third World and will bring about serious injuries to U.S. global strategy. In his speech made at the Research Center for International Issues of the South in Atlanta on 24 February 1983, Shultz stressed: "The Third World is of fundamental significance to our security." Therefore, starting from the interests of its global "security," the United States needs to readjust its policy, too, to adopt necessary measures, and to promptly put a stop to the malignant development of the Third World debt crisis.

Looking at the above-mentioned background to the Reagan administration's policy readjustment, the Reagan administration is obviously trying to start from actual conditions, in combining short- and long-term interests and the economic and political interests of the United States, so as to make its policy serve better the general interests of U.S. monopoly capital and capitalism. This is the fundamental consideration for the Reagan administration's readjustment of its economic policy for the Third World.

III

The fact that the Reagan administration has made some readjustments to its policy on Third World debt does not mean that there is a fundamental change in the policy. In the present situation, such readjustment is only a strategic change imposed by the situation. Therefore, it is both limited and unstable. It has played a certain role in relaxing the international debt crisis and the tension in "North-South relations"; however, the basic contradictions and struggles between the United States and the Third World countries will continue to develop.

[HK171343] 1. For the time being, the "explosive situation" of the international debt crisis is relaxed; however, the fundamental reason for it to worsen again has not been eliminated. Because of joint efforts in the "rescue" by the governments and commercial banks of the Western industrial countries, such as the United States, and international monetary organs such as the IMF, and the efforts made by the largest debtor nations such as Mexico and Brazil themselves, it seems that the Third World has tided over the "most dangerous period" of the debt crisis between the end of 1982 and early 1983. However, these "rescuing" activities were but "a short-term answer to a long-existing problem (quoted from the U.S. TIME magazine). Not only have they failed to eliminate the basic cause of the debt crisis, but they have also added new factors of instability to the international monetary system. This is chiefly because the Third World debtor nations have temporarily ridded themselves of their debt crisis by means of accepting new loans to pay off old ones and postponing the deadlines for repayment of their debts, and the result will inevitably make the snowball of debts grow bigger and bigger as it rolls along, and the burden of debts is still pressing on them, pushing a still more serious debt crisis into the future. For instance, according to an estimation of World Bank Director (Krausen) in January 1984, by the end of 1983, the external debts of the Third World nations had increased to a total of \$810 billion or so, increasing by around \$100 billion from 1982; among them, those of Brazil, Mexico and Argentina had increased to \$97 billion, \$83 billion and \$42 billion, respectively. Meanwhile, despite the fact that world banks had rearranged the deadlines for repayment of debts, the total debt repayments of developing nations in 1983 was \$21.9 billion more than they could borrow from world banks; in other words, the new loans made were far from enough to repay the old ones. Therefore, the present international debt situation is still severe, and tension is still present; at times, it can be very acute. The situation in Mexico was somewhat relaxed in 1983, but it has become tense again this year, and it has signed a new agreement for a loan of \$3.8 billion with an international banking group, comprising 500 Western banks, on 27 April. In March 1984, Argentina failed to repay a sum of interest due, which might have caused trouble; and it was only through a new loan provided by the United States and other nations that it tided over the crisis. Despite the fact that foreign banks agreed to give Brazil a loan of \$4.4 billion, it was still short of several billion dollars. Because of a drop in oil prices, the oil producing nations, such as Venezuela, are bogged down in financial difficulties one after another. Since mid-1982, the number of nations requiring postponement of deadlines for repayment of debts has grown to 30, and the sum of the debts undergoing renegotiation amounts to \$100 billion. Therefore, failure to find a rational solution to \$100 billion. Therefore, failure to find a rational solution to the international debt problem and its development will inevitably lead to the emergence of a "second wave." In connection with the rearrangement of debts, new frictions may arise between the United States and the developing nations.

2. The tension between the United States and the Third World has been temporarily relaxed, but conflicts between the basic interests of the two parties still exist. The Reagan administration's policy readjustment will obviously enable the major Third World debtor nations, such as Mexico and Brazil, to have a chance to catch their breath, reliving their pressing needs

for the time being, therefore preventing their immediate economic collapse and great political turbulence. On the other hand, while the United States has been readjusting its policy on the Third World debt crisis, the Soviet Union has been transferring large quantities of financial and material power to Afghanistan and Vietnam, and is busy enough with its own affairs. The majority of Third World nations cannot obtain from the Soviet Union large amounts of capital funds or technology, nor can they export more of their commodities to the Soviet Union. Under such circumstances, U.S. readjustment of its policy on the Third World has somewhat improved its image among developing nations, and is helpful to relaxing the tension between the United States and the Third World nations prior to the policy readjustment. However, the U.S. "rescue" of Mexico and Brazil has also put heavier shackles on these nations, because the postponement of debt repayment and the new loans, as the major measures for the "rescue," are based on high interest rates. Facts in recent years have proved that the exploitation of high interest rates is even crueller than direct investment in foreign nations and exchange on the basis of unequal value in foreign trade on the part of the West, because when the interest rate is raised 100 points, the Third World has to pay scores of billions of dollars in extra interest. Just as was pointed out by Central Bank of Brazil former director (Cals R. Langors) [5694 2047 2448], the prolongation of debts against such a background "has become a profitable means" for Western banks, and this will inevitably prolong and aggravate the contradiction and struggle between the United States and the Third World debtor nations; only the form of struggle, which may be intense at times, will be different.

[HK171345] 3. A superficially flexible attitude has been adopted on "North-South relations," but in fact a new obstruction has been placed in the path of the struggle of the Third World to set up a new international economic order, dividing and demoralizing "South-South cooperation." Under the pressure of the objective situation, U.S. President Reagan was compelled to give up the rigid advocacy that a preparatory meeting to determine the agenda of the "North-South talks" was imperative, which was at that time favorable to improving the atmosphere of "North-South relations." However, more than a year has gone by, and Reagan has not kept his promise. In fact, since July 1983, the Reagan administration has retreated from its position in March 1983, holding that the developing nations are more and more dependent on the United States and other Western industrial nations because the former are bogged down in debt; moreover, they have disputes among themselves. More and more signs have shown that, with debt as its weapon, the United States is continuing to impede the struggle of the Third World to set up a new international economic order. 1) It is making use of the psychology of the Third World debtor nations, in their pressing need to solve their debt difficulties, and is attempting to lead astray the struggle of the Third World to set up a new international economic order. On this point, there is a similarity between the positions of the United States and the Brandt committee in their positions. In its report entitled "Common Crisis: Cooperation Between North and South in Striving for the Revival of the World's Economy," the Brandt committee advocates solving the practical problems in view, and laying off the empty new international economic order for the time being. While praising this idea, COMMERCE REPORTS, mouthpiece for U.S. monopoly

capital, holds that the measures of the United States and other major Western powers have proved partially effective. For instance, although the diplomats of the Third World advocate exerting influence on the Western nations through "Collective talks," their economic officials are not so "enthusiastic" about it. Meanwhile, the U.S. press beautifies the rearrangement of debts and the making of new loans to the Third World on the part of the United States and the Western banks as a "large-scale transfer of wealth," so as to numb the militancy of the Third World nations. 2) It continues to provide loans to the Third World selectively, causing greater imbalance in the economic development of the Third World nations. Most of the loans U.S. banks provide for the Third World are concentrated on nations with rich natural resources, such as Mexico, Venezuela, and Chile, and the so-called "new rising industrial nations," such as Brazil, Argentina and South Korea. This will inevitably widen the economic gap between developing nations. The new loans provided by the United States for the "rescue" also found their way to nations of the aforesaid two categories, while the United States is attempting to place those nations which have accepted the larger loans under its control and influence. This practice of the United States has actually played a role in sabotaging the unity of the Third World nations. In recent years, at some large international conferences, there have often been disputes or disharmony on questions such as trade with developed capitalist nations and setting up a new international economic order. 3) It has stubbornly insisted on safeguarding the old international economic order. Despite the fact that since early 1983 many important personages in the United States have been enlightened by the grave results of the international debt crisis, acknowledging that developed nations and developing nations are economically "dependent on each other." Important government officials such as Secretary of State Shultz and Secretary of the Treasury Regan have said that if the debt crisis of the Third World nations should continue to grow, with their economies falling, and their trade shrinking, it would affect the economic revival of the whole Western world. Without the economic growth of the Third World, there will not be continuing economic prosperity for the United States. However, important personages of the U.S. Government, including President Reagan, have reaffirmed that in any international talks and activities, the United States opposes the weakening of the existing international economic system, such as the IMF and the GATT. At the sixth session of the UN Trade and Development Conference, held in Belgrade between 6 June and 3 July 1983, the conference failed to make due progress because of the rigid attitude of the United States. Concerning global talks on "economic cooperation and development," the United States has up until now shown "an obvious lack of political sincerity," and has not made any substantial concessions, which has caused strong resentment among developing nations, in particular the "group of 77." At the meeting of seven heads of state held in London in June 1984, the United States rejected the proposal of France and Canada on solving the debt problem of developing nations by opening the markets of developed nations, so as to achieve an overall solution of the debt crisis; it continued to insist on the readjustment of the economies of the debtor nations on their own, and on their opening up the markets in their own countries, and insisted on the so-called "two gradual solution"; as a result, the summit meeting made no progress at all on solving the world debt problem.

In short, pounded by the waves of international crisis, U.S. monopoly capital is compelled to readjust its policy on Third World debt in accordance with the realities of current international economics and politics, with a view to safeguarding the overall interests of itself and the capitalist system. However, because of the basic conflict of interests between U.S. monopoly capital and the Third World nations, and the exploiting nature of U.S. monopoly capital, and because the Third World nations are universally bogged down in financial and economic difficulties and are asking the United States for help, the Reagan administration's policy readjustment is limited. In view of the fact that United States has the upper hand regarding "North-South relations," and is doing its utmost to sabotage "South-South cooperation," stubbornly insisting on its position of upholding the old international economic order, the Third World nations should unite and work in still closer coordination, and carry out a long-term bitter struggle so as to rid themselves of the heavy debt bondage, develop their own national economies, and set up a new international economic order.

CSO: 4006/211

FINANCE DEPARTMENT RAISES ESTIMATE FOR GNP GROWTH

Hong Kong WEN WEI PO in Chinese 15 Sep 84 p 4

[Article: "GNP Increases to 8 Percent; Finance Department Declares an Increase to This Year's Budget Estimate, Showing That This Year Hong Kong Had Continued Good Growth; Mainland China Can Become Hong Kong's Second Large Export Market"]

[Text] Peng Lizhi [1756 0536 3112] of the Finance Department yesterday made an optimistic revision in the forecast for the GNP increase put forward by the Finance Department this February in its financial budget plan, rising it from 6 percent to 8 percent. He indicated that this revised prediction shows that the 1984 economy spurred on by exports continued to achieve good growth. He also indicated that based on the present trend Mainland China could very possibly by the end of this year become Hong Kong's second large export market, which could strengthen cooperation in many aspects between the Mainland and Hong Kong.

He said that recent American document proposals to alter the regulations for importing of textiles, ready-made clothing and those concerning the sources of raw materials have been an added factor in the instability of Hong Kong's economy. He indicated that concern over these new regulations had caused Hong Kong's production of textiles to come to a standstill. He also pledged that the government would do its utmost to protect the interests of Hong Kong.

He stressed the fast and significant development of trade and business between Hong Kong and the Mainland. He believes that this trend will continue and he also firmly believes that there are many other areas between Hong Kong and the Mainland where cooperation can be strengthened, benefitting both economies.

When looking at the economic development prospects for Hong Kong's economy in 1985 and 1986 Peng indicated the following: The rate of Hong Kong's economic growth will still be determined by factors from abroad. The world economy is expected to continue its growth but in general terms it might experience a marked slowdown. In particular, many people think the economic growth rate in the United States will slow, which will have a negative

influence on the growth of Hong Kong's export products. To a certain degree this unfavorable situation can be offset by increased product exports to Mainland China.

In talking about the economic problems of Hong Kong, Peng said the expected deficit for this fiscal year to be the "rather low" 2.1 billion yuan of the budget prediction, which will definitely not be within the 1 billion yuan worth of bonds successfully put up for sale.

He said based on the first 5 months of the year the newest (preliminary) estimate for total expenditures in 1984-85 is 42.4 billion yuan, showing a 1.6 billion yuan reduction compared to the budget estimate. This is due to the government of Hong Kong tightening up on expenditures, which is causing bids for public construction to be lower and therefore causing construction costs to drop.

He said that if this estimate proves to be correct, then compared to the actual expenditures of 38.7 billion yuan in fiscal year 1983-84 the calculated increase estimate of 9.6 percent will in essence only be 2 percent. Doubtless the publicly-owned sectors will also be under this same type of restraint. The Hong Kong government's not yet completed financial requirements for public works is presently around 20.3 billion yuan. These figures show that the government of Hong Kong is continuing to invest in the basic facilities of society and the economy, and further illustrates the government's firm intent to actively invest in these in the future.

12704

CSO: 4006/7-A

HONG KONG'S ECONOMY DISCUSSED

Guangzhou GANG-AO JINGJI [THE ECONOMY OF HONG KONG AND MACAO] in Chinese
No 3-4, 1984 pp 1-4

[Article by Xu Dixin [6079 3321 2450]: "The Economy of Hong Kong"; talk given
in Foshan on 4 April 1984]

[Text] (1) Impression of Hong Kong

When I visited Hong Kong for the first time in 1927, there were only a few unpretentious streets. Although Queen's Road was relatively presentable, not many shops lining it could be described as imposing. It was in the winter of 1946 that I made my second visit. This time I was not merely passing through but was there for a rather long stay. It was not until April 1949, after the liberation of Nanjing, that I left. At that time, the level of economic development could not be compared favorably with Shanghai. The Gloucester Building, which has long since been dismantled, was one of the tallest buildings at the time. Needless to say, there were no expressways. Even the art of tailoring was inferior compared to Shanghai.

It was in the 1950's that a change came over Hong Kong. After its occupation, Great Britain made it into a free port and invited investors to the colony. However, it was not until the eve of the liberation and shortly thereafter, when British financial groups and the Jiangsu and Zhejiang cliques from Shanghai brought in their capital, techniques, personnel and equipment in a steady stream, that the economy of Hong Kong came to be developed on a large scale.

Since 13 years still remain until 1997, why should the question of the recovery of Hong Kong be brought up at this time? Although it was the intention of our party and government to deal with the problem at a later date, it was the British who wished to bring up the subject. It was around 1981 that they indicated to our government their desire to extend the lease on the new territories. In short, it was their desire to occupy Hong Kong indefinitely. How can we accede to that request? How can we allow the three unequal treaties imposed on us by force over 100 years ago by the British to continue in perpetuity? Of course, the resurgent Chinese people and government must denounce the three unequal treaties and recover our sovereignty over Hong Kong, Kowloon and the New Territories!

Following a trip of investigation to Hong Kong last year, a few comrades and I have come to acquire a better understanding of the situation in Hong Kong. The Chinese in the colony may be divided into three general classes: members of the first class are the products of the long-term training given by such financial groups as the Hong Kong and Shanghai Bank, the Charter Bank and the Taikoo group of industries. These people constitute a minuscule number of the 5.3 million population. Although small in number, they nevertheless wield considerable power. It is their hope that while sovereignty over Hong Kong should be returned to China, the colony will remain under British rule. Another class is formed by those sent by Taiwan to engage in a variety of activities in the British colony. Their number in proportion to the 5.3 million is even more negligible. The third class is made up of the overwhelming majority of inhabitants who are patriotic and in favor of regaining sovereignty over Hong Kong. Be that as it may, they nevertheless entertain certain reservations in view of the indelible impression left by such political movements as the 10-year period of unrest resulting from the anti-rightist movement. Their apprehension is understandable. For the good of Hong Kong, we must, in regaining sovereignty over the British colony, unite all the residents who can be united and establish a relationship with them as fellow countrymen. We cannot, however, possibly accept the notion that only the residents of Hong Kong and the British can understand Hong Kong or that it should remain under British rule.

I had occasion to make a report at a meeting of the Chinese General Chamber of Commerce in Hong Kong in September 1983 and to offer the remark that if the British would adopt a sensible attitude and cooperate with us, problems could easily be settled after 1997 and that we would adopt a protective policy insofar as British enterprises in Hong Kong were concerned. When the subject of the Hong Kong dollar came up (there was considerable fluctuation in the exchange rate between the Hong Kong dollar and the American dollar at the time), I was asked why the Chinese government would not take action to bolster the Hong Kong currency. My reply was that the currency issued by banks is listed as "debts" and not "assets" in the account books and that responsibility must therefore be assumed by whoever issues the currency. That is an unalterable principle. In response to my remarks that evening, a British spokesman in Hong Kong said that "there is no government which can control foreign exchange activities in a free market." That was clearly an evasion of responsibility. Regrettable as it may be, objective economic laws cannot be altered by "quibbling." Before a week had passed following the remark made by the British spokesman, the exchange rate between the Hong Kong dollar and the American dollar plunged from 4 to 1 to 9.6 to 1, creating a panic in Hong Kong and causing its residents to stock up on such commodities as rice and canned goods. Finally, the British authorities in Hong Kong had no alternative but to step in and adopt certain measures to stabilize the Hong Kong currency market. It was only then that the exchange rate of Hong Kong dollar gradually picked up and the wave of panic buying began to subside. What lesson may be derived from that situation? Does that not prove that they contradicted themselves in what they said and what they did within a few short days? Of course, what was done by the British authorities in

Hong Kong was a great deal wiser and more commendable than what they said in rebuttal to my remarks that evening.

Although an agreement appears likely in the negotiations between the British and us regarding Hong Kong's future, many problems require further study. Great Britain is a country well versed in the art of diplomacy and the possibility that certain moves may yet be made before the conclusion of a final agreement cannot be ruled out. The recent public announcement made by Jardine-Matheson of its intention to set up a controlling company in the Bermudas even before a formal decision had been reached by the board of directors is a prime example of the need to give further thought to the matter.

2. The Need To Understand Fully the Hong Kong Economy

Hong Kong is at present the financial, commercial, transportation and information center in the Asian and Pacific region. How did the economy of Hong Kong come to be developed to such a high degree? Some people believe that Hong Kong owes its economic development to its favorable geographical position. Others claim that it is due to the successful implementation of the British policy of making Hong Kong a free port. Actually, Great Britain had no choice but to adopt such a policy in view of the limited size and the limited natural resources of Hong Kong. If Hong Kong had not been made into a free port, could it have maintained its economic position, let alone develop its economy? It is not enough for Hong Kong to depend on these two factors alone for its economic development. Otherwise, why did Hong Kong wait until the 1960's to "take off" after having been occupied by the British for over 100 years? Without belittling the effect of the two factors mentioned above, we believe that Hong Kong also owes its prosperity to the following:

First is the establishment by the Chinese people of a strong and stable people's democratic government under the leadership of the CPC. The policy adopted by our government has provided Hong Kong a stable political environment (except for a brief period during the 10-year rampage caused by the Cultural Revolution). Furthermore, our country makes available to Hong Kong large quantities of food and daily necessities at stable prices on a long-term basis.

Second, as a result of the political and social unrest besetting certain regions in Southeast Asia and the Middle East in recent years, large amounts of capital have flowed into Hong Kong. The capital that had been drawn to Hong Kong was followed by the importation of techniques and technologies with the result that far from being a consumer-oriented city, Hong Kong has gradually evolved into an industrial city and a financial and commercial center. It is not by accident that Hong Kong has acquired a new look in the course of the last 30 years.

Third, 98 percent of the 5.3 million people are hard-working and intelligent Chinese who supply a source of cheap labor over a long period of time.

It is therefore a one-sided argument with no basis in fact to say that the prosperity of Hong Kong is entirely the outcome of the British policy of making it a free port. Hong Kong does not exist in outer space all by itself. Its economic development cannot be divorced from a number of related factors.

(3) The Economy of Hong Kong Is an Abnormally Developed Colonial Economy

The economy of Hong Kong is a colonial economy abnormally developed under British rule with the following features: (1) the economy of Hong Kong is controlled by British capital. The entire economic life of Hong Kong is monopolized by such financial groups as the Hong Kong and Shanghai Bank, Jardine-Matheson, the Charter Bank, the Hui-de-feng [2585 1795 6265] and the Taikoo group of industries. Yet these financial groups are not placed on an equal footing with the financial groups in Great Britain itself.

(2) The components of the economy of Hong Kong are extremely complicated. Aside from the monopoly exercised by the financial groups of British capital and in addition to the foreign capital of financial groups of the United States, Japan and the Southeast Asian countries, the components are also made up of the socialist enterprises as represented by the Hong Kong branch of the Bank of China, the Huarun Co and the China Merchants' Steam Navigation Co. Thus, there exists in Hong Kong a monopolistic as well as a socialist economy. Such a complicated economic system is rarely seen anywhere else in the world. (3) Hong Kong is seriously burdened by a sense of dependency. Since the power of the government in Hong Kong is in the hands of the British, it has to import all the raw materials and foodstuff that it needs and to export its finished products. This is a special feature of the economy of colonies in general and of the economy of Hong Kong in particular. (4) The economy of Hong Kong is highly speculative in character. Under the capitalist system, while it is very difficult to draw a line between normal and speculative operations, the economy of Hong Kong is particularly speculative in nature. Having surpassed Shanghai in stock market, money market, gold market and real estate market speculations, Hong Kong has become the paradise of adventurers. These special features bespeak the hidden contradictions and dangers lurking behind a prosperous facade and the inescapable weaknesses of the Hong Kong economy. For this reason, one cannot get a true picture of the economy of Hong Kong by looking merely at the prosperity or the weaknesses of the market on this tiny island.

(4) The Problem of Having Two Social Systems in One Nation

Those in positions of leadership in our country have given the assurance that the capitalist system will continue to exist in Hong Kong for at least half a century after the colony has been reverted to China. This is a practical as well as a correct theoretical position to take. Under the socialist system, the means of production are placed under public ownership which rules out exploitation while capitalism is exploitative in character. While socialism calls for a planned economy, capitalism favors an economy based on free competition without government interference. Although these

systems are contradictory in nature, they are not entirely irreconcilable or incapable of being integrated. Although opposite in character, they are nevertheless reconcilable. Can a policy of consistency be maintained after the recovery of Hong Kong?

It is my opinion that it can. As a financial, commercial and information center in the Southeast Asian region, Hong Kong can be of great service to us in the establishment of the socialist system. We can, for instance, make use of Hong Kong to import capital and advanced techniques and equipment on the one hand and to increase the export of commodities and to absorb and provide training to administrative personnel on the other. In other words, the economic advantages of Hong Kong may well be used to speed up the implementation of our socialist projects of modernization. That is what is meant by consistency. Naturally, we are not unmindful of the existence of a contradiction. According to dialectics, however, there is nothing in the world that is free from contradictions. Are there not contradictions within the capitalist system itself, let alone contradictions between the socialist and capitalist systems? The important thing therefore is to reconcile the contradictions that may exist.

The continuation of the capitalist system for another half a century after the return of Hong Kong is of advantage to local foreign capital, including British capital, as well as to the unification of our motherland and the implementation of our socialist projects of modernization. In regaining sovereignty over Hong Kong and in making it possible for Hong Kong to be ruled by the people of Hong Kong, we must do everything we can to unite all the people who can be united. The outflow of a certain amount of capital from Hong Kong should not be a matter of great concern. So long as Hong Kong continues to prosper, the capital taken out is certain to flow back in. Are there capitalists who do not want to make money? Their capital is certain to go where money can be made. What we have to do is to adopt a course of action in dealing with different types of people. We must consider as friends even the stubborn people and protect their interests so long as they love and support the unification of their motherland.

A problem arises from the fact that there are people in Hong Kong who entertain some reservations that the policy of allowing capitalism to exist for another half a century may be subject to change. At the time of my visit to Hong Kong last year, the suggestion had been made by some people that there should be a guarantee that the policy would remain in force. This problem has been represented by some of our friends as being extremely complicated. As a matter of fact, the problem is not as complicated as it has been made out to be. Some investors in Hong Kong have already put their assets in the Bank of China in Hong Kong for safekeeping and the Bank of China in Hong Kong has in turn entrusted the Bank of China in London with their properties for safekeeping. Does that not make the insurance coefficient extremely high and does that not indicate very clearly that the business operations and properties of the capitalist enterprises in Hong Kong have been offered a guarantee of the most reliable kind?

"The rule of Hong Kong by the people of Hong Kong" is a form of political insurance which has been incorporated into the constitution. The enactment of a law ensuring the rule by law is indicative of the possibility of the coexistence of two different systems in one country within a certain period of time and of the reliability of our commitment.

Having just begun to engage in a study of the economy of Hong Kong, we have seen only the surface of the situation. We have yet to achieve a full understanding and to engage in further studies of the financial groups and especially the complicated family relationships of the British financial groups in Hong Kong and the economic relationships between Hong Kong and the Asian and Pacific regions. Thirteen years still remain until 1997. There is no assurance that a certain part will not make some move during this period of time. This is something that also merits further study. My main concern is over the Hong Kong currency. The problem, complicated as it is, may become even more so by 1997. We must give the matter further careful study.

I am all for setting up an association to engage in the study of Hong Kong. The establishment of an academic body for the study of the economy of Hong Kong would help in the extensive collection of materials, the exhaustive study of the problems and the interchange of ideas. The setting up of such a body would also promote cooperation with the progressive elements and people of learning in Hong Kong. A meeting (large or small) may be held several times a year to analyze the problems, to air the contradictions that have cropped up and to make recommendations in good time. It is my hope that all of us will direct our efforts toward that end.

9621

CSO: 4006/717

DISCOURSE ON MAKING USE OF HONG KONG

Guangzhou GANG-AO JINGJI [THE ECONOMY OF HONG KONG AND MACAO] in Chinese
No 3-4, 1984 pp 4-8

[Article by Gu Nianliang [0657 1819 5328]: "A General Discourse on How To Make Use of Hong Kong"]

[Text] What we are discussing today is not whether we should or can make use of Hong Kong to promote the socialist modernization projects of construction in our motherland but how to make use of it to the best effect. However, whenever the subject comes up, we tend to conjure up in our minds the special privileged position being accorded to Hong Kong. True enough, Hong Kong is connected by sea and land to a number of counties and cities in our province. By using Hong Kong to promote economic and trade relations; cultural, scientific and technical exchange; the transportation of goods; and the transmission of information, it is possible to save time and money. However, due to the advances which have been made by modern science, communications, transportation and telecommunications have been developed to such an extent, especially in an age marked by the free flow of news in society, that the limitations imposed by distance have been gradually reduced or eliminated altogether so that proximity may not necessarily be an advantage. Taking trade in Hong Kong as a case in point, the largest market for the products of Hong Kong is neither the adjoining motherland nor the neighboring Southeast Asian region but the United States across the wide ocean. In 1983, the number of products shipped to the United States was 7 times that exported to China or 437 times that prior to the 3d Plenum of the Central Committee of the CPC in 1979. (Note 1) Generally speaking, the proximity of the market is a favorable factor in the sale of fresh commodities. However, that may not be true in this day and age. For instance, the best-selling oranges in Hong Kong are not those from Xinhui or Luogang but Sunkist oranges from the United States 10,000 li away. The celery from the United States and the salmon from Canada flown across the ocean are sold at exorbitant prices in the Hong Kong market while similar products from our own country are looked on with disdain. It can therefore be seen that the proximity of the market cannot be counted on as an advantage. What can be counted on is the availability of an adequate supply to Hong Kong of the commodities that it needs in conformity with the laws governing the development of the present-day international market and in strict accordance with the open-door policy.

Similarly, we often tend to consider the fact that an overwhelming majority of our countrymen in Hong Kong and Macao as well as the tens of million of overseas Chinese and their children are Cantonese as a favorable factor in making use of Hong Kong and in the development of its external economic relations. That is something that cannot be denied. For the better part of a century, vast numbers of overseas Chinese, foreign citizens of Chinese origin and fellow countrymen in Hong Kong and Macao of all classes were among those who in various ways have taken part in the old and the new democratic revolutions in their motherland, and some of them have given all they possessed and even their very lives. Even today, there are many people who are dedicating their wealth and their wisdom and every ounce of their energy to the socialist four modernizations projects of construction in their motherland. However, business is still business. It is one thing to love one's country and another to make profit. These are two different concepts. There are not a few capitalists in Hong Kong, Macao and overseas who, because of their love for their country and their places of birth, would not hesitate to contribute what they have to offer and yet have no wish to invest in or do business with their motherland. Why? That is something which provokes profound thinking.

While by no means downplaying the advantages of the proximity of Hong Kong and Macao, their common language and their ways of life, we believe that these favorable factors can be brought into play only on the condition that other circumstances are equal. For instance, in supplying commodities in demand in the Hong Kong market under similar conditions as to quality, price, dependability, business credibility and the simplicity or otherwise of procedures, the shorter the line of supply, the more advantageous it is. It is also more convenient to do business with one's own countrymen and those from the same village.

The fact has been borne out that whether or not we can make good use of Hong Kong depends not only on objective factors but even more so on the subjective dynamic role which people can play. That is something which hinges on the policy of our country. It is only when a correct policy is adopted that the favorable objective factors can be made to play their role. For instance, after we had brought order out of chaos and adopted the open-door policy, trade between China and Hong Kong, both visible and invisible, began to show a dramatic increase on a sustained basis and the amount of foreign capital brought in from Hong Kong increased by several times. (Note 2) From 1978 to the present, there has been no change in the geographical position of Hong Kong or in the basic composition of its residents. Why then has the economic relationship between Hong Kong and China taken a quantum leap within a few short years? The reason must be attributed to the powerful role which our policy has played.

It goes without saying that we have only seen the initial results of our effort to make use of Hong Kong. The adoption of a correct policy has merely established the need to make further use of Hong Kong. The next question is how the policy should be applied.

Since the connotation of making use of Hong Kong has the character of an embrace, where do we begin? My opinion is that in addition to making use of

Hong Kong's market, its capital, its talent and its position as an information center, we must also direct our attention to the importance of learning the way the people in Hong Kong do business. If the open-door policy can be said to be a prerequisite for making use of Hong Kong, then a knowledge of the way the Hong Kong businessmen operate is a means and a precondition for the achievement of that objective. The reason is that in dealing with them, it is first necessary to come to terms with the way the traffic goes. In taking part in an international ball game, it is necessary to know its rules; otherwise, no accommodation can be reached. The way the people in Hong Kong do their business means the way the enterprises and commercial operations are managed in the capitalist world at the present time with certain features peculiar to Hong Kong.

During the 30-year period after the war, Hong Kong, with its favorable geographical conditions and under certain specific historical circumstances, was able to move into the developed capitalist world at a breathtaking speed. What is the key to the phenomenon? As is well known, capitalism, whose objective is to reap surplus value, owes its being to the buying and selling of commodities. In Hong Kong society today, all the means of production and subsistence are commodities, as are labor and services and, in short, everything else. It can be said that the free flow and circulation of commodities are major factors accounting for the high level achieved by the economy of Hong Kong. Production, circulation and consumption make up for the entire revolving process of commodities as well as the entire process of productive power. When any link in the chain of circulation is blocked, the circulation of commodities will certainly bog down. The more developed the production of commodities, the more significant and important the links of circulation. The reason is that the purpose of production is not to meet the consumer needs of the producers themselves but the needs of other people. At a time when the barter trade has long been a thing of the past, commodities must be sold at every opportunity and in every corner of the world. Generally speaking, the producers no longer have to deliver their products directly to the ultimate consumers. Instead, what they do is to make their commodities available to the ultimate consumers through various links represented by the commissioners, agents, brokers, wholesalers and retailers. It is only when the commodities have reached the hands of the ultimate consumers that their use and exchange value can be finally realized and that their historic mission can be fulfilled. That is the correct observation of one isolated instance of the production and circulation of commodities. However, the capitalist who invests in the setting up of a factory or in operating any kind of enterprise does not call it a day after having engaged in buying and selling one single time. Not only does he have to continue to engage in production and operations, however simple or complicated the process may be, but he must also continue to expand his production and operations so that the various circulation links continue to expand and that money continues to be made.

In the entire process of production, circulation and consumption under capitalism insofar as capitalists are concerned, the crucial question of whether or not a profit can be made depends on whether the commodities can

be sold (that is W—G). Whether the W—G process can be successfully completed is something which makes a capitalist hold his breath. That is why to avoid being ruined in his operations, every capitalist must resort to all possible means to sell his commodities. (Note 3) Since such so-called third-class properties as banking, insurance, communications, transportation and leasing operations are dealt with according to the pattern for dealing with commodities in a capitalist society, they too must be sold like commodities. As for the commodity of labor (including mental labor), it has even a greater need to find an employer if the laborers are not to go hungry and lose their means of livelihood. In a highly commercialized society, a most intricate relationship is established among all the departments and enterprises. While competing and contending with each other, they must also make use of and depend on each other for their survival. Every man must, however, make every effort to exist and to develop under the most favorable conditions he can muster. Thus, a body of common experiences in the administration of operations has gradually come into being. Such a body of experiences in the administration of operations did not come into being in the old China prior to the liberation or the new China after the liberation because such a highly developed commodity economy did not exist in our country. In a highly commercialized society, all the enterprises must observe such experiences like the rules of a game. If we are to make use of Hong Kong, we too must learn from this body of experiences.

While the presence of a favorable circulation environment does not necessarily ensure advanced productive power, it does offer favorable conditions for its speedy development. An increase in the rate of labor productivity depends on the technical and administrative level attained. A knowledge of and the adoption of the method of the administration of operations used by the people in Hong Kong enable us not only to make use of Hong Kong in an effective manner but also to learn how to improve the administration of the operations of our own enterprises. So long as the advanced experiences in the administration of operations by the modern capitalist enterprises are capable of increasing economic effectiveness, improving the quality of the products and promoting the development of production and circulation, they should be regarded as a kind of advanced science and technology on the same level as natural sciences. Although such experiences are derived from capitalist enterprises, they are nevertheless the products of human industriousness and intelligence. Such experiences are in themselves not confined to certain classes or national boundaries but can be made use of in the service of capitalism as well as of socialism. So long as we analyze the situation correctly and learn from our practical experiences, we can use such experiences to promote our own enterprises. Over half a century ago, Lenin offered his guiding thought: "The most recent invention of capitalism in this respect--the Taylor system--has, like everything else of a progressive nature under capitalism, two sides. One side is represented by the most ingenious and brutal means of capitalist exploitation and the other by a series of the most outstanding scientific achievements.... No matter how, the Soviet Republic must in this respect make use of the valuable achievements in the fields of science and technology." (Note 4)

In daily usage, the phrase "make use of" often implies the use by any one party of certain unscrupulous means to achieve a certain end. The phrase "make use of Hong Kong" cannot by any means be interpreted in that context. It is only when both parties stand to benefit that the economic relationship between them can be maintained, preserved and developed. This relationship cannot be preserved for any length of time if it is profitable to one party and not the other. If China can be said to make use of Hong Kong, can it not be said that Hong Kong also makes use of China? Even the British authorities in Hong Kong have admitted that "It is our belief that the strengthening of relations between Hong Kong and China is of no benefit to either party." (Note 5)

As early as during the period of the war of liberation, Comrade Mao Zedong and Comrade Zhou Enlai had occasion to point out that long-term plans should be made to make use of Hong Kong. Following the liberation, due to the compliance of the British authorities in Hong Kong with the embargo policy of the imperialistic United States and the series of disturbances created by the "leftist" line, it had not been possible over a considerable period of time to develop to the fullest extent the role that Hong Kong could play in promoting the socialist projects of construction in the motherland. That is a matter of regret. Since the "1997" problem came to the fore, those in leadership positions in the party and government have repeatedly made clear that after the recovery of sovereignty over Hong Kong, the social system in Hong Kong will be preserved and that no changes will be made in the economic system and the lifestyle of the people of Hong Kong for 50 years. This policy is based not only on political considerations but, more importantly, on economic grounds as well. The reason is that in the maintenance of the highly commercialized capitalist society in Hong Kong and the preservation of its status as a free port with access to the capitalist world, we are able not only to develop our external economic relations and to open our cities to the outside world but also to develop the production of commodities in the numerous medium-size and small cities and towns and the rural areas in our country. It is only through the development of the production of commodities that we can raise the productive power of the rural areas to higher levels and speed up the process of our socialist agricultural modernization. It can therefore be seen that making use of Hong Kong, far from being a makeshift measure, is a long-term strategic decision.

In conformity with the spirit of the symposium of certain coastal cities recently held in Beijing that "it is our policy not only to open the door but to open it even wider," we are presently engaged in opening further the door in 14 coastal cities from north to south "to enable such cities and their enterprises to strengthen and to develop more vigorously their economic activities." (Note 7) That is indicative of the fact that our open-door policy has taken another forward stride. As has been stated earlier, whether Hong Kong can be made to play an even larger role in promoting the four modernizations projects of construction is determined not only by how far or near Hong Kong is or the attachment of our fellow countrymen in Hong Kong and Macao to their native land but to a larger extent by the policy adopted by our party and government. In theory and in our practical experiences during the last few years, the policy of our party has proved to be correct.

Provided we go about implementing that policy in a resolute manner and keep under firm control the law of economic operations in Hong Kong, there is no doubt that we can strengthen economic relations between our cities from Dalian in the north to Beihai in the south and Hong Kong. The economy of China and Hong Kong is certain to grow in lockstep and their prosperity and development will be further enhanced in the days to come.

FOOTNOTES

Note 1:

Unit: HK\$100 million

Region \ Year	Year	
	1977	1983
Value of products from Hong Kong to the U.S.	135.52	438.02
Value of products from Hong Kong to China	0.31	62.23

Source of data: Hong Kong Statistical Bureau

Note 2: Gross Value of Trade Between China and Hong Kong. Unit: HK\$100 million

Year	1977	1978	1979	1980	1981	1982	1983
Amount	828,841	1,084,529	1,704,849	2,819,516	4,047,809	4,473,328	6,122,722
+ percentage compared to previous year	+4.8	+30.8	+57.2	+65.4	+43.6	+10.5	+36.9

Source of data: Hong Kong Statistical Bureau

Note 3: "If the sale has actually been completed as has been assumed in our analysis of simple circulation, then this difficulty, that is, the salto mortale (the perilous leap) of commodities, has been negotiated." (Collected Works of Marx and Engels" vol 13 p 79); "When W— G commodities undergo a

change in the form of the first type or when they are sold, the value of the commodities takes a leap from commodities to cash. As I have said elsewhere, that is what is meant by the perilous leap of commodities. When this leap is not successfully negotiated, what are ruined are not the commodities but without question those who own the commodities." ("Capital" vol 1 p 124 of the first edition of the translation of the "Works of Marx, Engels, Lenin and Stalin," published by the Central Committee of the CPC)

Note 4: "Selected Works of Lenin" vol 3 p 511, second edition, published by the People's Publishing House in 1972. Marx pointed out at an early date: "Capitalist administration is two-fold in content. It assumes the function of administration arising from the nature of the process of concerted labor as well as the function of administration arising from the opposing nature of the capitalist character of this process." (Translation of "Capital," published by the Translation Bureau in March 1976, vol 1 p 369)

Note 5: Chinese version of "The Consultative Committee on Pluralistic Economy in 1979" published by the British authorities in Hong Kong, p 105.

Note 6: Xiaoguan Fanzi [phonetic; 1420 6306 4636 1311], chief of the International Situation Research Center of the Japanese Current Affairs Association, reported: "Under present circumstances, 70 percent of the direct foreign investment in China and over 90 percent of the direct investment in the special economic zones in China are made through Hong Kong. So far as China is concerned, Hong Kong is the only place from which technical materials and information from the developed Western nations may be obtained on a regular basis." (CANKAO XIAOXI second edition, 4 April 1984)

Note 7: See first edition of WEN HUI BAO published in Hong Kong on 7 April 1984. The 14 coastal cities are Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai. The report also says: "Favorable conditions will be created by some of the cities for the establishment of economic development zones. Even outside the old city limits, clear-cut geographic areas have been set aside for the construction of basic facilities in order to establish joint and solely financed foreign enterprises in a concentrated area. Certain policies will also be adopted for according preferential treatment to the special economic zones."

9621

CSO: 4006/717

BASIC FACTORS FOR ECONOMIC DEVELOPMENT OF HONG KONG

Guangzhou GANG-AO JINGJI [THE ECONOMY OF HONG KONG AND MACAO] in Chinese
No 3-4, 1984 pp 8-13

[Article by Yuan Shibang [5913 1709 6721]: "Basic Factors for the Economic Development of Hong Kong"]

[Text] Hong Kong was originally a small desolate island. Aside from sunlight, sea water, a harbor, rocks and a scattering of inhabitants, it has no natural resources, not even fresh water, to speak of. How, then, did it develop into a modern world trade center? The reason has been attributed by some to the fact that Hong Kong is situated in a communications center and that it has an excellent deep-water harbor. If that is true, why then did it come to be truly developed only in the 1950's after having been made a free port over 100 years ago? How did it come to be transformed from an entreport into a world trade and international financial center and from a society where "thousands upon thousands of people slept in the streets" and where "human dignity was virtually nonexistent? into the affluent and prosperous society it is today?

That is a complicated question with no simple answers. Is it because Hong Kong is a capitalist society? Many capitalist societies, including that in Britain, are stymied in their development with little prospect for economic growth. What is it that has made Hong Kong stand out as an "economic miracle" in the eyes of the Western world? What has transpired would seem to indicate that Hong Kong owes its economic development to the role played by capitalist economic laws as well as that played by the economic factors peculiar to Hong Kong.

While the factors contributing to the economic growth of Hong Kong are complicated, two of them may be said to have played crucial roles. First, following World War II, the sizable expansion of world trade over a long period of time and the unstable situation in Southeast Asia enabled Hong Kong, with its excellent conditions for the circulation of goods and favorable environment for investment developed over a long period of operation, to play its role to the full. Second, although Hong Kong was Chinese territory under British occupation, the Chinese government has, since the liberation, held the view that it should be returned to China when the time is ripe and that a protective policy and one aimed at the maintenance of its stability

should be adopted. At the same time, the Chinese people, the overseas Chinese and foreign nationals of Chinese origin consider Hong Kong a place closest to their homelands where they can settle down to make their living and where they can put their assets to profitable use. These two can be said to be the basic factors accounting for the economic growth of Hong Kong.

The first that may be mentioned is Hong Kong's favorable conditions for the circulation of commodities and for the making of investments created over a long period of time. Hong Kong is credited by everybody with a favorable investment environment. What is a favorable investment environment? Since capital goes where profit can be made, a favorable investment environment is where profit, and a large amount of profit, can be made.

To make a large amount of profit in capital investment, it is essential to have favorable conditions for the circulation of commodities. By that is meant that capital must circulate rapidly and on a regular basis. According to Marx, there are three stages in the process of capital circulation, namely, (1) purchasing, through which money is transformed into commodities; (2) production, through which the value of commodities exceeds the value of the key elements of production; and (3) sales, through which commodities are transformed into cash. In the formula for the circulation of money-capital, $G...W...P...W' .G'$ [as published], the stage of sales is the most important in the entire process of money-capital circulation. Through the process of sales, "the value of commodities takes a leap from the form of commodities to the form of money"², and commodities are turned into cash. Otherwise, value and surplus value cannot be realized and everything will come to naught because unsold commodities would pile up and the flow of circulation would come to a halt. The resulting stagnation or economic crisis besetting the capitalist societies is due to their inability to reconcile these antagonistic contradictions. Since Hong Kong is also a capitalist society, it, too, is plagued by these contradictions. The favorable conditions for the circulation of commodities and for investment in Hong Kong as mentioned above have, however, served to mitigate these contradictions or to reduce the pressure caused by economic crises. Under the protective wings of China, Hong Kong is able to add luster to its economic development when things are going well and, when the economy falls upon hard times, it can count on somebody to come to its aid. That is where Hong Kong enjoys an advantage over other capitalist regions and why it is able to use this network for the distribution of surplus value to attract funds from abroad on a regular basis.

The abundance of high-quality manpower resources and favorable conditions for the circulation of commodities that have developed over a long period of operations have made it possible for Hong Kong to use its manpower to serve as a mainstay and a motive force in the rapid development of its economy during the last 20 years.

"Whatever the form of the society of the producer, manpower and the means of production remain the essential elements of production" and "in order to proceed with production, it is essential to have them both."³ "The total

period for the circulation of capital is the sum of the time for production and circulation" and "the rate of renewal of the process of production depends on the time it takes for the circulation of capital." "The closer the time for circulation is to zero, the greater is the function of capital, the higher the production efficiency of capital and the larger its capacity for self-proliferation."⁴

Let us see how money-capital circulates in the Hong Kong market.

Possessed of abundant manpower resources, Hong Kong has full freedom to hire or to fire. Since there is no wage system to speak of, the amount of wages is normally agreed upon between the employers and the workers.

Trade and commerce are well developed in Hong Kong. It has no customs duties. Money is freely exchanged as there is no control over foreign currencies. There is an abundant supply of resources in the market, including raw materials, equipment and technologies which can be bought and sold over the telephone. If there are no supplies in stock or if the amount of supplies is not sufficient to meet the needs, the problem can be solved in short order through the trade channels. Similarly, the same advantages apply to the sale of commodities.

Hong Kong has a well-developed system of sea, air and land transportation. Since it has a modern system of communications, it has easy access to information. Thus, the remotest corners of the world have become close neighbors and years and months have been reduced to days, hours, minutes and seconds.

Hong Kong enjoys general preferential tariff treatment from many countries and special preferential tariff treatment from eight members of the British Commonwealth.

Income and profit taxes in Hong Kong, at 17 and 18.5 percent, respectively, are relatively low (it was 15 and 16.5 percent, respectively, before taxes were increased in 1984).

There is in Hong Kong a wide range of commercial and industrial services, including such fields as commerce, law, finance, engineering technology and counseling where a premium is put on efficiency.

The financial institutions in Hong Kong are well developed and credit loans are easily arranged.

Hong Kong has adopted the marketplace economy and the free enterprise system with minimum interference from the government. Anybody and any company can, through a simple procedure, set up a company, enterprise or factory for money-making purposes.

Any entrepreneur or investor is free to produce any commodity or to engage in any business operation where a profit can be made.

First, when an enterprise begins operations, it can easily obtain electric power and install telephones and telecommunications equipment. It can find all the workers and staff members that it needs through advertising or other means. It can also buy all the necessary means of production. It can, by ordering goods ahead of time or by buying futures, reduce the cost of production and its stockpile. Since there are no import restrictions in Hong Kong, it can easily import materials for processing. If it has a good credit standing, if it can put fixed or circulating assets as security, if the guarantee (such as contracts and letters of guarantee from the banks) is acceptable to the lender and if its operations and income are considered favorable and reliable, it can continue to count on financial accommodations. Because of the ever present supply of different types of goods in the Hong Kong market, the ease with which supplies can be replenished and the accepted practice of trading in futures, an enterprise is usually in a position to reduce its stockpile to a minimum and to ensure the circulation of funds.

Second, an enterprise can, by using the payment of wages and various methods of giving rewards and meting out punishment, motivate the positive attitude and the spirit of initiative of its workers, raise its technical standard and introduce reforms and innovations to upgrade the rate of labor productivity and the standard of administration to increase the surplus value.

Third, an enterprise can, by accepting orders for goods ahead of time and by selling a large number of futures, give direct market quotations and make use of brokers, agents and commissioners to sell its goods. It can, on the basis of market information, also adjust its production, engage in the production of something else or adjust prices and trade terms to sell their products. Hong Kong does not have an export tax and, aside from certain goods whose specified amounts have been set or set on a voluntary basis by the enterprises themselves, there is no limit on exports. Export procedures are simple. Generally, it is permissible to make a customs declaration 14 days after the export of the commodities. For this reason, the entrepreneurs have autonomous control over their exports and are free from the restraints imposed by export procedures.

Furthermore, the high level of development of the financial institutions, the complete range of businesses and the convenience of making credit loans have helped greatly in promoting the circulation of goods. All the enterprises, be they large, medium or small, can make use of bank credit loans to enlarge their production, their import and export trade and their business operations. By making use of loans for renting or purchasing machinery, by paying for their factory buildings by installments (first paying rent for and later buying the factory buildings), by acquiring mortgage loans and loans made "with the support of promissory notes" and loans made by "mortgaging the deeds to company assets," specified mortgages and floating mortgages, the enterprises can borrow money from the banks to enlarge their production and operations. By resorting to such methods as making use of letters of credit, taking delivery of goods on trust, making loans for packing, borrowing money on exports, entrusting somebody to collect funds for exports, buying foreign exchange and settling foreign exchange accounts ahead of time, the enterprises can acquire the circulating funds for the import of raw materials and equipment

and for the payment of exports in the import and export trade. For example, at the end of September 1983, the banks extended to the import, export and entrepot trade enterprises loans totaling HK\$26,577,000,000 and to the manufacturing enterprises loans amounting to HK\$15,861,000,000 while allowing the savings companies to extend loans to the two categories of enterprises amounting to HK\$2,573,000,000 and HK\$2,836,000,000, respectively.

Let us see how the enterprises make use of bank credit loans to expand their operations.

In 1969, a certain enterprise in Hong Kong set up a 5,000-square foot plastic bag factory with a net capital of HK\$100,000, 70 [as published] employees and 10 hand-operated machines. The annual volume of business came to some HK\$200,000. By making use of bank credit loans, this enterprise kept expanding its operations. In a period of 10 years, it obtained from the banks various types of loans totaling HK\$1.5 million, including a HK\$400,000 credit overdraft, HK\$200,000 for installment payment for the factory building and a HK\$550,000 credit for the delivery of goods. In addition, the owner mortgaged his own house for HK\$250,000. By 1980, the net capital of the enterprise had grown to HK\$500,000, the factory building had expanded to 50,000 square feet, the number of workers had increased to 50 [as published], a large amount of new equipment had been installed and the annual net profit had exceeded HK\$1 million.

The example cited above is commonplace in Hong Kong. The unprecedented development of the real estate construction business in the 1970's, for instance, was made possible with the support of credit loans extended by the financial institutions.

Favorable circulation conditions do not come into being in a single day. Since they owe their existence to material facilities and modern methods of administration, they are the products of efforts to develop operations over a long period of time. That is where Hong Kong holds the advantage. With this advantage, capital can grow at a rapid rate when market conditions are favorable. That is why Hong Kong was able to absorb foreign capital like a sponge after the war and to pave the way for its economic growth and prosperity.

Second, one result of China's protective policy toward Hong Kong is that the Chinese, the overseas Chinese and foreign nationals of Chinese origin have come to regard Hong Kong as a place where they can settle down to engage in their pursuits and where they can put their assets to profitable use.

As a result of the domestic situation in China after World War II, the large numbers of Chinese who settled down in Hong Kong also brought with them vast sums of money. The population of Hong Kong, which was less than 600,000 in 1945, increased to 2.36 million in 1950, 3.13 million in 1961, 3,948,000 in 1971 and 5.28 million in 1982. Of this number, 98 percent are Chinese, most of whom had come from China. As for the composition of the population, women are outnumbered by men, most of whom are able-bodied and capable workers.

There are also large numbers of experienced people in the industrial and commercial enterprises, including factory directors, managers, engineers, technical and administrative personnel and other professionals. Thus, they have brought to Hong Kong the essentials for its economic development--an abundance of labor and the means of production. Shortly after their arrival in Hong Kong, they proceeded to engage in manufacturing, especially in the textile and clothing industries.

After the war, trade was resumed and expanded at a rapid rate in the capitalist world. Hong Kong, already accorded preferential tax treatment by members of the British Commonwealth, was offered a golden opportunity to develop its textile production and export trade to meet rising demands for such products in the peripheral markets. In 1951, when the "embargo" was enforced by Hong Kong, entrepot trade suffered a sharp decline, making it difficult to make a living and compelling the enterprises to speed up the development of production and to open up the international market. Thanks to the favorable situation resulting from the increasing demands of the foreign market and the influx of large amounts of labor, capital and techniques from China, the manufacturing enterprises, originally small in size and limited in their productive capability, were able to grow and prosper within a short period of time. The "1979 Report of the Consultative Committee on the Pluralistic Economy" published in Hong Kong has this to say on page 32: "The influx of capital and operational techniques from China has enabled Hong Kong to meet the increasing needs in the world market. Furthermore, the preferential tax system which permits the tax-free importation of Hong Kong products by members of the British Commonwealth has resulted in the rapid development of the textile and clothing industries in the 1950's." It can therefore be seen that it was from China that Hong Kong derived its motive power for economic development. Even today, investments made by the Chinese in the industries in Hong Kong constitute 80 to 90 percent of the total.⁵

The influx of a large number of able-bodied laborers is also a major reason for the economic development and the accumulation of capital and wealth in Hong Kong. Naturally, the economic growth of Hong Kong goes hand in hand with and cannot be divorced from the efforts made by the local enterprises to bring in capital and techniques and to make full use of financial credit loans to invest in the acquisition of brainpower, to improve the investment environment and to open up the overseas market. However, without the inflow of large amounts of labor from China, it would not be possible to generate surplus value no matter how large the amount of capital. The history of Hong Kong is positive proof that the influx of labor and capital from China has been a major motive force in its economic development. For instance, at the time of the all-out Japanese invasion of China in 1937, a large number of Chinese and vast amounts of money flowed into Hong Kong. Almost overnight, a period of prosperity was ushered in and the textile and clothing industries underwent rapid development. Comparing 1936 to 1940, the import trade in Hong Kong showed an increase of 166.6 percent while the export trade registered an increase of 77.2 percent. The value of textile and clothing exports increased 2.3 times from HK\$12.59 million in 1936 to HK\$41.44 million in 1940. This situation is illustrated by the following statistics:

Hong Kong Trade Statistics for 1936-1940 (HK\$1 Million)

	Imports	Exports	Textiles and Clothing	
			Imports	Exports
1936	452	351	4.12	12.59
1937	617	467	4.45	19.68
1938	618	512	5.07	20.56
1939	594	533	4.44	28.52
1940	753	622	3.56	41.44

Good times, however, do not last forever. When the war in the Pacific broke out in 1941 and Hong Kong came under Japanese occupation at the end of the year, the bottom fell out of Hong Kong.

The productive power of Hong Kong is derived from Chinese labor. Without a large infusion of Chinese labor over a long period of time, Hong Kong would not have become what it is or would even have remained a desolate island. From the conclusion of the war to 1980, there was an unending flow of a large number of laborers from China into Hong Kong. Hard and diligent workers who are used to working long hours and working overtime at low pay, they were directly responsible for contributing to the wealth and prosperity of Hong Kong. It is the value created by Chinese labor that has made it possible for the rate in the increase in the gross production value of Hong Kong to exceed that in the population by 4 times.⁶ If credit is to be given where it is due, then the Chinese laborers should be awarded first prize for the great leap made by the manufacturing industries in the 1960's and for "phenomenal achievements" in the 1970's. An official document in Hong Kong has this to say: "Certain special features of the laboring class have been a great help as a propellant in Hong Kong's economic growth. First, possible due to the absence of powerful labor unions and collective bargaining, the amount of wages is determined by the supply and demand situation. For this reason, the cash income in Hong Kong is less likely to go inexorably downward compared to other areas. Second, the laborers in Hong Kong are willing to work overtime and longer hours."⁷

It may be seen from the above that it is the long hours of work done by and the low wages paid to Chinese workers that are responsible for making Chinese and foreign capital investment profitable in Hong Kong and that it is Chinese labor itself which attracts outside capital.

By comparing the growth rates of the population, the number of those engaged in economic operations and those in the manufacturing enterprises (note: the number engaged in economic operations includes those engaged in the manufacturing enterprises), it may be seen that from 1961 to 1980, the total population increased by 59.3 percent, those engaged in economic operations by 87.3 percent and those in the manufacturing enterprises by 87.6 percent and that the rate of increase in the latter two categories was greater than that of the first.

Another trend is that, out of the entire population, the ratio of those engaged in economic operations and manufacturing enterprises tends to increase as time goes by. This phenomenon indicates that the rapid and sizable increase in the number of those who generate or help to generate value and surplus value is responsible for the speed and high rate of increase in the amount of capital accumulation in Hong Kong. Without discounting the role played by other related factors, this is the key to the rapid increase in the wealth and prosperity of Hong Kong.

Structure of Labor Responsible for the Creation of Wealth
Which Leads to the Prosperity of Hong Kong

	Total population	People Engaged in Economic Operations	People Engaged in Manufacturing Enterprises
1961	3,129,000 100 percent	1,211,200 38.7 percent	475,520 15.19 percent
1980	4,485,600 100 percent	2,268,800 45.51 percent	892,140 17.89 percent
Percentage of increase between 1961 and 1980	59.3 percent	87.3 percent	87.6 percent

The Chinese territory of Hong Kong is the gateway to China. On the strength of that alone, it serves as a magnet which draws capital from foreigners and Chinese nationals overseas. Furthermore, by using Hong Kong to engage in entrepot trade and by making available to it the necessary supplies, China has been of economic benefit to Hong Kong and is directly responsible for its stability, economic growth and prosperity.

The "1979 Report of the Consultative Committee on the Pluralistic Economy" published in Hong Kong says: "To make a fair and unbiased assessment of the economic growth and development of Hong Kong, it is necessary to study the economic relationship between Hong Kong and China, especially after China had made known its economic modernization program (p 94)." "In the 5 years between 1974 and 1978, food, raw materials and fuel constituted 73 (1977) to 77 percent (1975) of the total goods imported from China to Hong Kong. A major part of these imports was for use in Hong Kong itself, a fact which underlines the dependence of Hong Kong on China for its daily necessities in general and food in particular (p 95)."

Finally, the fact that China's investment in Hong Kong exceeds Hong Kong's investment in China is obviously of advantage to Hong Kong's economic growth.

The simple conclusion may be drawn that the economic growth of Hong Kong is due to the favorable circulation conditions it has created over a long period

of time and that the influx of labor and funds from China has given it a productive force which has served to provide a sound foundation for the establishment of a modern manufacturing economy and the necessary conditions for its development. Later on, the rapid growth and accumulation of local capital caught the attention of the world with the result that large amounts of foreign capital were drawn to Hong Kong. The influx of capital from China and abroad, coupled with an abundant supply of labor, has raised the productive power of Hong Kong to unprecedented heights and produced large amounts of surplus value. Although the capitalists in the manufacturing enterprises are the first to benefit from the surplus value, the surplus value generated by the workers in the manufacturing enterprises has, through the circulation of commodities, also benefited the industrial and commercial enterprises and the service trades in addition to generating interest and land rent. That, in turn, has served to promote the growth of the various trades and businesses. Such businesses as trade, commerce, finance, shipping and service have in turn rendered sterling service in reducing the cost and shortening the time for the circulation of goods and in making it possible for commodities to realize to the full their value and surplus values. By helping each other forward and bringing out the best in all, the enterprises have brought increasing wealth to Hong Kong and made it the affluent and prosperous society it is today.

FOOTNOTES

1. "Hong Kong 1973," p 2 of the Hong Kong Annual Report published by the Hong Kong government.
2. "Capital" by Karl Marx, Vol 1 p 124.
3. "Selections from 'Capital'" p 222.
4. Ibid. pp 242-243.
5. "Hong Kong 1984" p 18.
6. See "1979 Report of the Consultative Committee on the Pluralistic Economy" p 10.
7. Ibid. pp 18-19.

9621

CSO: 4006/718

MAIN FEATURES OF HONG KONG AS WORLD FINANCIAL CENTER OUTLINED

Guangzhou GANG-AO JINGJI [THE ECONOMY OF HONG KONG AND MACAO] in Chinese
No 3-4, 1984 pp 13-16

[Article by Jin Hongfan [6855 3126 3131] of the Fujian Academy of Social Sciences: "The Major Features of Hong Kong as an International Financial Center"]

[Text] The free port of Hong Kong, an international financial center with special Eastern features, is like no other. In broad outline, its special features are as follows:

First, as a financial center, Hong Kong is a functional center. A financial center may be either a "paper center" or a "functional center." The former is used in reference to such "tax havens" as the Bahamas and the Cayman Islands whose main function is to serve as a venue for the registration and account keeping of international banks and financial institutions for the purpose of avoiding the payment of taxes. Outside of that, such "centers" do not engage in normal financial operations (such as deposits, loans, remittances and financial consultation).¹ According to this definition, Hong Kong is truly a "functional center" engaging in a full range of financial operations. There is, however, no universally accepted definition of the term "functional center" and, even if there were such a definition, it is by no means ironclad. Far from being a venue for tax evasion and registration, the financial center of Hong Kong has taken on an increasingly wider range of functions than those traditionally performed by banking institutions. On the one hand, the banks, aside from engaging in such monetary operations as deposits, loans and remittances, have taken on such pluralistic operations as investments, the operation of enterprises and consultations for economic development. On the other, certain financial institutions other than banks, such as futures markets and insurance companies, have also taken on financial operations and developed their functions as "second banks." In addition, there are also unlicensed banking agencies and commercial banks, that is, financial entrepreneurs, whose main function is to raise funds from abroad for the extension of loans needed by the people of Hong Kong at a certain "premium," a function which is also performed by the banks. Thus, the financial center of Hong Kong, which performs a full range of functions, may be said to be a "functional center" in the true sense of the word.

Second, the financial center of Hong Kong is a combination of local and outside financial institutions. "Functional centers" may also be divided into combination centers formed by local and outside financial institutions and centers formed by

outside financial institutions alone. They may also be referred to as "integrated centers" and "separated centers." "The former refer to centers formed by domestic and foreign banks and financial institutions which are entirely free to engage in domestic and foreign operations, while the latter permit only foreign banks and financial institutions to engage in offshore operations and operations beyond the national border."² Hong Kong is a financial center of the first type. Generally speaking, the local banks and foreign banks which are registered and have been established outside of Hong Kong but which have been issued permits to operate on the island are free to engage in any operation inside or outside of Hong Kong. For this reason, although the local and foreign banks belong to different systems, they infiltrate into and even merge with each other to form a composite system. These banks in general and foreign banks in particular engage not only in outside and offshore financial operations but also in various financial operations in Hong Kong itself such as public deposits, the exchange of and trading in foreign currencies and investments. Thus, Hong Kong differs from such financial centers as Singapore and Manila where foreign banks can only engage in outside or offshore operations and are not permitted to have any dealings with the local residents or are permitted to do so under strict limitations. Although the limitations imposed on such centers for engaging in outside operations vary, none of them is permitted to engage in local financial operations, or they are permitted to do so on a strictly limited basis. Compared to these financial centers, the financial center of Hong Kong has a much wider base for financial operations. Because of the merging of financial operations inside and outside of Hong Kong, the financial center of Hong Kong is able to speed up the international movement of funds as well as to promote the economic development of Hong Kong itself. Thus, Hong Kong is possessed of more special features as an international financial center.

Third, the financial center of Hong Kong is one which offers a variety of financial services. Centered around the three types of banks and backed by various types of financial institutions, Hong Kong offers the widest range of financial services with a greater number of Eastern features and is the most flexible among the financial centers of the world. Regarding the banking structure, the three types of banks in Hong Kong are the licensed banks, companies licensed to take in deposits and registered companies which are permitted to take in deposits. They all have different functions to perform. For instance, those banks which have met all the requirements and are permitted to operate may accept any amount of deposits without any time limit from the public; the licensed companies may accept public deposits of no less than HK\$500,000 and without any time limit; and the registered companies are only permitted to accept public deposits exceeding HK\$500,000 for the duration of at least 3 years. The enforcement of such measures to utilize as well as to restrict such operations has enabled the banks not only to perform their functions to the full but also to establish a financial system on the principle of work on a cooperative basis. Working in coordination with such banks and companies are the financial markets which engage in a variety of financial services. First of all are the short-term money markets. The loan

activities in Hong Kong dollars among the banks with agents acting as intermediaries serve to adjust the short-term surpluses and shortages of bank funds. First, the chief suppliers of such services are the banks in Hong Kong and the applicants are mostly foreign banks which have difficulty in gaining access to the local deposits market. Although many of these operations are of a fly-by-night nature, the various types of banks nevertheless serve to bridge the gap between the borrowing and loan periods. While it is the opinion of some foreigners that Hong Kong does not have a money market in the true sense of the word and the Americans, Williams and Bishop, are of the view that "Hong Kong does not have a true money market comparable to those of the major financial centers in the West,"³ the short-term money markets in Hong Kong are extremely active. Second is the foreign currency market. Since there is no foreign exchange control in Hong Kong, the time difference allows the foreign banks to make use of their branches in Hong Kong to engage in trading when other foreign exchange centers are closed for business. In view of the sizable gap in the amount of circulating funds and the fact that a certain amount of their deposits and loans is in foreign currencies, there is considerable activity in the foreign exchange market. One of the chief operations of foreign banks and financial companies is in foreign exchange trading. "The average daily amount of trade between the banks comes to between \$300 million to \$400 million, 20 to 30 percent of which is in the exchange of Hong Kong dollars for American dollars."⁴ Since the exchange rate in foreign currencies is allowed to float freely and there are different quotations even in a single day, the financial market is extremely sensitive. Third are the stock markets of which there are four in Hong Kong. There were also 2,931 registered persons and member companies by the end of 1982. Among them are 15 companies (in 1978) financed by British, Japanese, American and Canadian capital which can only engage in operations through the local member companies. Although the total amount of funds comes to only HK\$25 million, far below the capital for such stock markets as the ones in New York, Tokyo and London, the stock market is extremely active. The special features of these member companies are that they are more sensitive to the effects of the world stock market; that although there are over 300 such companies in the market, only 66 to 67 percent of them engage in regular trading; that some 44 percent (in 1978) of the companies in the market are real estate companies; that there are vast numbers of stock holders; and that virtually everybody in Hong Kong has something to do with the stock market in one way or another. That is why the index of the Heng Seng Bank, which reflects the state of the stock market, is of the greatest concern to the enterprises and the local residents. Fourth is the gold market which has a long history in Hong Kong. The gold and silver trading market was established in 1910. It is an Eastern gold market which operates according to the old Chinese pattern. Since 1974, when restrictions were lifted over the import and export of gold by the Hong Kong authorities, Hong Kong has been developed rapidly into the third largest gold market in the world after London and Zurich. By the end of 1982, 194 member companies and offices had been established in Hong Kong by all the noted gold traders in the world. By the middle and late 1970's, the daily average volume of trade had exceeded HK\$200 million (by the middle of 1976).⁵ The volume of trade has made new gains in recent years. The special features of the gold

market in Hong Kong are even more pronounced than those of other financial markets. The main features are that the unit of trade is the Chinese unit--the tael. The purity standard of gold is 0.99, that is, "99 gold" reckoned in Hong Kong dollars; trading is done according to the old pattern of bidding; both the buying and selling of futures and spot transactions are carried on; and buying and selling take place daily. However, there is no storage or renting system. The date for the delivery and receipt of gold is flexible and negotiable and most of the trade is in the illegal remittance of foreign exchange to take advantage of the time difference. Aside from trading in "99 gold," Hong Kong is also engaged in gold trading with London. In other words, the price of an ounce of gold is quoted in American dollars by certain gold dealers while the gold and silver trading markets are open. Trading in "99 gold" is also done over the telephone instead of actually being done in the market. Thus, the "99 gold" market and the gold trading between Hong Kong and London are supplementary in nature without posing a threat to the trading in "99 gold." Fifth is the commodities futures market which was established in 1977. By the end of 1982, there were 1,483 registered persons and companies dealing in raw cotton, raw sugar, soybeans and gold. The trading is also done according to the old pattern. It involves financial transactions and exchanges of a highly speculative nature among the traders. Because of the speculative aspect of the trade, strict regulations are enforced and heavy fines are imposed for violations. The commodities futures market, by reducing or avoiding such difficulties as those posed by the transportation of commodities over long distances between the world markets, is a convenience to traders and entrepreneurs alike. Furthermore, Hong Kong also has insurance companies and unitary trust companies which, in a wider sense, may also be said to belong to the financial market rendering worldwide services. For this reason, the financial services rendered by the financial center of Hong Kong may be said to be the best in the world from the standpoint of depth as well as scope.

Fourth, the financial center of Hong Kong is a center for raising capital. One of the major functions of the financial system in Hong Kong is the mobilization of various types of deposits so that funds may be used to the best advantage. That is to say, profits are made by the financial institutions by either the local or international deployment of funds at the lowest cost. Thus, Hong Kong is also a center for the mobilization of investment funds, a loan center for financial groups in the Asian and Pacific area and an entrepot for the circulation of funds. Many investments in various areas of the world, and especially in East and Southeastern Asia, are made in Hong Kong. Between July 1977 and June 1978, the various areas in the world extended 55 loans amounting to \$43.76 billion to the financial groups in Asia. Twenty-six of the loans amounting to \$22.08 billion were concluded in Hong Kong; 10 loans amounting to \$7.27 billion were concluded in London; 9 loans amounting to \$9.91 billion were concluded in Singapore; 3 loans amounting to \$1.05 billion were concluded in Tokyo; 7 loans amounting to \$3.45 billion were concluded in other areas; and almost half of the loans amounting to over half of the total amount of funds

were concluded in Hong Kong.⁶ The importance of Hong Kong as a center for raising capital is therefore obvious. The companies licensed and registered to accept deposits play a major role in making Hong Kong a fund-raising center. The expansion of the American dollar market in Asia and especially the increase in direct trading among the money markets in London have further served to make Hong Kong the fund-raising center that it is. The development of investment in the Asian region, the enlargement of the scope of circulating funds and the accelerated speed of turnovers have further consolidated the position of Hong Kong as a fund-raising center. In recent years, Hong Kong has further improved its position among the loan-receiving nations in Asia. It has moved up from fifth in 1975 to fourth in 1980 in Thailand, from fifth in 1974 to fourth in 1979 in Malaysia, from third in 1974 to second in 1981 in Indonesia and from fifth in 1975 to third in 1981 in the Philippines. In 1982, Hong Kong borrowed collective credit loans amounting to almost \$27.5 billion from the nations in the Asian and Pacific area. Aside from the countries mentioned above, Sri Lanka, India and Papua New Guinea have also begun to figure prominently in the money market in Hong Kong. The fact that Hong Kong is a free port as well as an international entrepot for the circulation of funds has made it an international financial center with certain special features.

Fifth, the financial center of Hong Kong is a center for speculation. Some people in the commercial and industrial circles tend to equate investment with speculation. Although by no means scientific, this understanding may have been derived from the actual situation in Hong Kong. As a free port, Hong Kong is a typical capitalist market where big and small adventures congregate, so all financial dealings are highly speculative in character. Some people take advantage of the exchange rate of the Hong Kong dollar to engage in speculative activities; some take advantage of the time difference to engage in illegal foreign exchange and speculative activities; some speculate in stock market quotations; some speculate in trading in commodities futures; and some speculate in real estate. These speculative activities, aside from being the products of the capitalist economic system, also owe their origin to a number of other factors. Some of the factors which have made Hong Kong an international financial center are also factors which serve to encourage speculation. There is, for instance, a time difference between the closing of the money market in New York and the opening of the money market in London and there is no control over foreign exchange. In an environment rife with speculation under capitalist conditions, an intricate network for speculation has been formed by a large number of speculators, companies big and small and an army of so-called brokers. Although it is true that a certain amount of speculation exists in all financial centers in the world, the speculative character of the financial center of Hong Kong stands out more prominently than it does in all the others.

In short, the international financial center of Hong Kong is one which has special Eastern features. Although smaller than New York and London in scope, the financial center of Hong Kong performs a wider range of functions. Aside from the special features common to other international financial centers, Hong Kong has many other specific features which have enabled it to surpass

the international financial centers of New York and London in rendering certain services in Asia. In the Asian region, Hong Kong has also surpassed Singapore as an American dollar market in Asia and the financial centers of Tokyo and Manila. For this reason, the position of and the role played by the international financial center of Hong Kong cannot be replaced by other international financial centers.

FOOTNOTES

1. Rao Yuqing [7437 7411 1987]: "Financial Centers, the Monetary System and the Future of Hong Kong," Hong Kong WEEKLY ECONOMIC REVIEW, No 125, 1983 p 11.
2. Ibid.
3. [United States] Williams and Bishop: "The Economy of Hong Kong and Its Future," Financial and Economic Publishing House of China, p 134.
4. [Japan] (Special Issue on Hong Kong), special supplement of THE INTERNATIONAL ECONOMY, No 186, p 134.
5. [United States] Williams and Bishop: "The Economy of Hong Kong and Its Future," Financial and Economic Publishing House of China, p 132.
6. See [Japan] (Special Issue on Hong Kong), special supplement of THE INTERNATIONAL ECONOMY, No 186, p 139.
7. See [Japan] "New Trend of Hong Kong Capital and New Composition of Capital Circulation in the Asian Area," THE OVERSEAS MARKET No 2, Feb 1983 by (phonetic) Xiaolin Shenfu [1420 2651 0135 1133].
8. Lei Xingwu [7191 5281 1889]: "The Prospects of Hong Kong as an International Banking and Financial Center," Hong Kong HUAQIAO RIBAO (special edition on Banking, Finance and Investment) 1983 p 3.

Actual Rate of Increase in Major Expenditures
in Gross Production Value of Hong Kong

	(Percentage)	
	1983 Preliminary estimate	1984 Forecast
Personal expenditures	9.5	7
Government expenditures	3.8	5
Gross value of fixed local capital	-6.5	3
Profits of real estate developers	-14.4	-2
Buildings and constructions	-5.6	3
Private operations	-13.4	-2
Public operations	4.4	9
Factory buildings and machinery	-0.8	6
Private operations	0.8	8
Public operations	-24.4	-36
Total exports	14.7	12
Exports of local products	14.3	10
Exports of transshipment products	15.3	16
Total imports	9.7	11
Net labor export	-8.4	2
Gross value of local products	5.9	6
Final gross demand (not including transshipment products)	6.3	7
Local demand	3.4	6
Cost of consumer goods	10.0	9

Source of material: HENG SHENG ECONOMIC QUARTERLY, April 1984.

9621

CSO: 4006/718

HONG KONG'S PROSPERITY AND LIBERAL ECONOMIC POLICY

Guangzhou GANG-AO JINGJI [THE ECONOMY OF HONG KONG AND MACAO] in Chinese
No 3-4, 1984 pp 17-19

[Article by Huang Biaoxing [7806 3574 2871], Huanan Normal College]

[Text] The factors affecting Hong Kong's prosperity are diverse, and include both objective and subjective factors. It is the subjective factors that deserve study, for it is through them that the objective factors are manifested. And which of these subjective factors is of importance? I believe that it is the liberal economic policy.

What I am speaking of here as liberal economic policy is the liberal economic policy that has been adopted in this port, which is a small special district that has already been delimited and that is outside the custom's system. It does not involve the question of whether the nation as a whole should adopt a protectionist policy or the question of foreign trade monopoly. At present, all countries in the world have adopted protectionist policies to some extent and customs are used inevitably by all countries to ward off the commodities of other countries and to protect domestic production. The more this is the case, the more important this type of duty-free free port appears. In contrast to all of the ports that are not free, it has become the only free port. Its free state per se and the customs facilities that are in place between it and the interior have enabled it to become a very active and free-wheeling window. Whatever equipment, raw materials or products are required in the interior can be purchased in this flourishing international market. That they are not required or are required only in small amounts does not have any effect on the interior regardless of the extent to which they are pushed into or inundate the market in Hong Kong. Products from the interior that it is not convenient to transport and sell abroad can be directly transferred to this small island for sale to foreign merchants. For over 100 years, the products produced in England that were shipped to Hong Kong for sale have been placed in the category of England's export trade. To obtain Hong Kong currency issued by the Hong Kong and Shanghai Banking Corporation is equivalent to obtaining foreign exchange and increases the favorable balance of trade. By the same principle, the trade between the interior of China and Hong Kong also has the character of foreign trade. Because Hong Kong is a special administrative district, the

trade between Hong Kong and Guangzhou is different from the trade between Guangzhou and Shanghai. There is a customs system between Hong Kong and the interior. The currency that is in force is not the renminbi but the Hong Kong currency, which can freely be exchanged for the American dollar, the British pound and the French franc. It does not matter what country issues the currency. As long the value of the currency is stable and is of high reliability, it can be freely exchanged as desired for dollars, pounds or francs and can be used freely to purchase gold. This means that shipping commodities for sale to Hong Kong is equivalent to selling them abroad to Europe, the United States and the entire world, for foreign exchange and a favorable balance of trade are acquired similarly. The economic prosperity of a city is determined by many factors. The most important of these are production and circulation. The prosperity of Hong Kong is similarly dependent on production and circulation. Production was formerly not in Hong Kong itself but in the surrounding regions and particularly in the interior of China. Circulation refers to the collection, distribution and transfer of the products of the interior of China and to the purchase and sale of products from all over the world in this region. Since the early fifties, when the United States in the name of the United Nations put an embargo into effect against the New China, the collection, distribution and transfer for the foreign sale of commodities from the interior of China and the transfer and importation into China of products from various countries of the world in Hong Kong were blocked, causing changes to occur in production and circulation. In the sphere of production, manufacturing industries -- including textiles, tailoring, plastics, electronics, watches and clocks, watchbands, jewelry, handbags, toys, food products, household electrical equipment, ship building and repairing, furniture and metal products -- began to develop in Hong Kong. In the sphere of circulation, trade developed with such neighboring areas as Japan, Singapore, Taiwan Province, South Korea, the Philippines and Australia and with such distant areas as the United States and Europe. In recent years, after China implemented its policy of opening up the interior of China to the outside, products primarily from the interior of China once again accounted for about one-fourth the total amount being imported into Hong Kong, thus exceeding Japan and achieving first place. Thus, it can be seen that trade and production in Hong Kong are closely related. Production stimulates trade and trade also stimulates production, including the stimulation of production in the local area and in the interior. However, the expansion of trade must depend on a liberal economic policy. If people do not have freedom of movement, then traders of other countries will not come to do business. If there were not an exemption from customs duties, merchants would not come to Hong Kong to pay double customs duties. If there were not the freedom to bring in and take out gold and foreign currencies, merchants would not be able to take out the money that they have earned and thus would not be able to continue doing business. If there were not freedom of sea and air navigation, the deep water and excellent harbor would not be able to fulfill its function and trade would not be able to take advantage of the superiority of transport. If there were not the freedom to open banks and credit organs, the freedom to buy and sell stocks, the freedom to trade in negotiable securities and the freedom of currency exchange and accumulation, then it can not become a financial center.

Since the opening of the port, the government of Hong Kong has consistently treated Hong Kong as an area of commerce and trade and has adopted a laissez-faire policy so that people would be free to come and go to do business. Finance Minister Peng Lizhi publicly stated: "In addition, the free market of this port is advantageous to the production of wealth. Any person of talent can maximize his advantages and can not be fettered by double taxation.... For this reason, those who succeed in the commercial society of the port can enjoy prosperity, whereas those who fail do not receive any aid or support from the government. Each business either withers or flourishes depending on whether or not it can adapt to the constantly changing conditions of competition. This type of survival of the fittest policy appears to be harsh and unreasonable. However, it has proven to fit the special environment of Hong Kong." The present governor, Youde, issued an administrative report in which he said that the aims and objectives of the government will remain unchanged and that the goal of the government in the economic sphere is to "avoid intervention in the business and financial worlds and to allow them to compete with each other freely to the greatest extent possible in the Hong Kong and world markets."

The adoption of a liberal policy in governing Hong Kong was not the result of any special wisdom on the part of the British. Although England was the home of the theory of laissez-faire and was the origin of capitalist competition, the sort of liberalism seen in Hong Kong was not developed within that country. This was because a country as a whole and a small special district are dissimilar. Not even the forefathers of the laissez-faire doctrine advocated that a sovereign nation should be open to all nations. But to set up a special port outside the country was another matter. Hong Kong and England are separated by a hemisphere. If it were not free, it would not meet the needs of even an ordinary port. Adopting a liberal policy was the only way to attract merchants from every region of the world to come to this small island to engage in trade. There is a limit to the number of residents of an island and there cannot be very many articles of consumption. If the degree of freedom does not exceed that of neighboring ports, seagoing vessels would prefer to berth at other harbors than come here in order to avoid paying parallel customs duties. Who would be willing to bring their goods into Hong Kong and pay a duty and then have to pay additional duty to bring them into Guangzhou? In such a case, they might as well ship them directly to Guangzhou and avoid customs duties and also save on transportation costs and time.

Hong Kong had to adopt a liberal economic policy because it has no further advantageous conditions than its geographic position and its deep-water harbor. Underground, it has no mineral deposits, and, above ground, there is no fertile soil. Historically, it has no illustrious cultural traditions and there are no famous historical sites to visit and enjoy. Under such conditions of very intense economic competition, on what could it rely to attract the financial magnates of the world to come and engage in activity, multinational companies to make investments and engage in the production of advanced technology and the competitive sale of products from all over the globe, large fleets to come to engage in shipping and tourists of the five continents to come and spend money? Clearly, it is because there is a high degree of freedom and

because it has claimed victory over ports with abundant natural resources, fertile soil, a massive labor force, high culture, beautiful scenery and numerous historical sites under the banner of "freedom."

To take tourism as an example, Hong Kong does not have Qin palaces or Han monuments and there are no large mountains or famous rivers. However, it is a world center for the purchase of goods where goods from all over the world can be freely purchased and freely taken out, with the result that large numbers of tourists come. There are some people who make special trips in which they fly from the United States to Hong Kong to deal in dowries and clothing. The huge annual trade deficit of over 10 billion [currency not indicated; probably HK \$-ed.] that has consistently resulted from Hong Kong's unfavorable balance of trade is largely made up for by the income derived from tourism. This indicates that the liberal policy has been very influential in the area of tourism. It can be said that the total annual sum derived from the foreign trade of more than 200 billion [as published] is largely the product of the liberal policy and that the fact that the annual trade deficit of more than 20 billion [as published] is largely compensated for by the income from tourism is also a product of the liberal policy.

Hong Kong not only is a center of purchases and an international trade center but is also an international financial center and international gold market. This is because of the creation of a liberal policy. In the past, Hong Kong had not established any freedom with regard to foreign exchange and gold and therefore had not yet become financial center and gold market. Since 1973, when the controls on foreign exchange were eliminated, it has become a completely open and free foreign exchange market and has attracted the capital of large financial groups in the world into coming to Hong Kong to engage in activity, so that in the seventies it developed into an international financial center, occupying the dominant position together with Singapore in the Asian Pacific region. During the seventies, the assets of the more than 100 banks and more than 300 savings companies increased 11 times. In 1982, total assets amounted to HK\$863,107,000,000, foreign bank deposits amounted to HK\$352,507,000,000 and the amount deposited in foreign banks was HK\$247,327,000,000. When the latter is subtracted from the former, a net adjusted income of HK\$105,180,000,000 is found. A surplus of HK\$200 million is an impressive figure. The total value of production for Hong Kong as a whole is more than HK\$20 billion in financial income, while the foreign trade deficit is only something over HK\$10 billion. Thus, it can be seen that the international financial center that was created by eliminating foreign exchange controls and opening up free foreign exchange merits being strengthened and expanded. Prof Rao Yuqing of Hong Kong University says that there are two factors that have contributed to the creation of Hong Kong as an international financial center, one of which is rule by law. "Another important factor is the free economic system, which has many levels: in terms of the individual, this includes individual freedom of occupation, freedom to travel and guarantees on private property. From the standpoint of financial activity, it includes the free movement of funds and the free exchange of currencies. This is not a simple matter. If we were to conduct a study of other countries and regions

throughout the world, how many could allow the free exchange of their currencies with other major currencies?" (JINGJI DAOBAO No 41, 1983). The most liberal of Hong Kong's policies was the one to lift the ban on the importation of gold in 1974. Previously, when the ban was in effect, only surreptitious activity was possible. After the ban was lifted, gold could be freely and overtly brought in and taken out and could be freely and openly bought and sold in large amounts, with the result that Hong Kong quickly became one of the three major gold markets.

There were several years when Hong Kong was not prosperous, for example, during the period of the Japanese military occupation when trade was cut off, there were shortages of grain rations and the population gradually decreased to 600,000. At that time, there was certainly no free economic policy. This was like the artificial obstruction of the policy of cutting off sales by the "gang of four" in that it inhibited the free economy from coming into full play. The implementation of opening up to the outside following the 3d Plenary Session of the 11th Party Central Committee caused the liberal economic policy of Hong Kong to manifest a power not seen hitherto.

A liberal economic policy can stimulate prosperity. However, freedom is not equivalent to complete nonintervention. Intervention that is required not only should but must be carried out, as was the case in September 1983 when there was a fall to a historic low in the telegraphic transfer value of HK\$9.45 to the U.S. dollar in Hong Kong. This causes great losses of livelihood among our Hong Kong compatriots and for the industrial and commercial banks. In a statement entitled "On the Current Hong Kong Currency Crisis" to a reporter of JINGJI DAOBAO on 23 September, Comrade Xu Dixin [6079 3321 2450] said it well: "Since the paper money issued by the government or the banks authorized to do so by the government are debts incurred against the people, the debt should be incurred against the people." On 15 October, the Hong Kong government finally announced two measures for rescuing the Hong Kong dollar. This indicates that the policy of free laissez-faire is not absolute and that it can be integrated and can exist together with needed intervention and that it is indispensable. It cannot be said that when there is intervention there is no freedom, as appropriate intervention assures the benefits of freedom. The director of the Hong Kong All-China Chamber of Commerce, Zhu Lianfen [2612 5571 5358], said: "It is clearly evident that a liberal economic policy must be thoroughly implemented in this port, but that during special periods, there is no cause for criticism in adopting a flexible policy of intervention." (JINGJI DAOBAO No 9 of this year)

There may be some comrades who feel that a liberal economic policy will not be of very much importance after 1997 or who believe that the degree of freedom can be reduced. I do not think that this is the case. It should be seen that the adoption of a liberal economic policy in Hong Kong will be of great advantage to the people of the nation as a whole, including those in Hong Kong. The chief of the Hong Kong branch of the XINHUA NEWS SERVICE, Xu Jiatun [6079 1367 1470], in a talk entitled "The Future and Hope," on 10 October before the Discussion Society of Hong Kong University, presented a

clear-cut exposition of the general and specific policies for the period after China recovers full sovereignty over the Hong Kong region in 1997, including such matters as how to establish a special administrative district, the governance of Hong Kong by Hong Kong residents, the appointment and use of personnel of the original government, autonomy, the socioeconomic system, the original laws, its position as a free port and international financial center, the circulation of Hong Kong currency, the various freedoms of the inhabitants, the economic interests of England and other countries, the relationship between a special administrative district and the world and public order. If these are fixed in legal form and announced to the public, it is clear that the various freedoms of the free port and of the inhabitants will be made clear-cut.

10019

CSO: 4006/719

FOREIGN INVESTMENT IN HONG KONG

Guangzhou GANG-AO JINGJI [THE ECONOMY OF HONG KONG AND MACAO] in Chinese
No 3-4, 1984 pp 20-23

[Article by Zhang Zuoqian [1728 0155 0051], Guangzhou Foreign Trade Institute:
"Activity of Foreign Capital in Hong Kong This Year and Future Trends"]

[Text] In the 2 years since the "1997 problem" has arisen, there have been diverse opinions on the activity and future trends of foreign capital in Hong Kong. However, in actuality, there has been no decrease over the past 2 years in the positive character of the intentions and attitudes toward investment in Hong Kong industries by foreign businessmen. Rather, there has been a strengthening in these areas. They have full confidence in investment in the future in Hong Kong.

First, this confidence has been displayed in the concrete activity of foreign capital in Hong Kong over the past 2 years.

According to British authorities in Hong Kong, there was not merely no decrease but, rather, a considerable increase in investment in Hong Kong by foreign countries in 1982. At the end of 1982, the total number of outside companies registered in Hong Kong increased from 1,547 in 1981 to 1,699. During the same year, there were 61 outside companies that completed applications, with the number of new companies reaching 213. There was also a comparatively great increase in foreign capital invested in Hong Kong industry during that year, with the total amount of investment reaching 7.56 billion yuan, an increase of 7.7 percent over 1981. If the 2 billion yuan in investment in partnerships with local persons are added to this, then the total investment comes to 9.55 billion yuan, an increase of 10 percent over 1981. Four-hundred eighty-six enterprises were opened, an increase of 44 and also an increase of 10 percent, as compared to 1981, and 93,000 workers were hired, an increase of 3.3 percent over 1981. According to data of the Ministry of Industry and Commerce, 21 comparatively large foreign manufacturing industries built new plants in 1982. A Japanese plant producing electric fans opened a new plant in the Tunmen District of the New Territories in November 1982--the International Electric Fan Co, Ltd. It occupies an area of 1,950 square meters. It is a joint venture between the Matsushita Seiko Co, Ltd, of Japan and its parent company, the Matsushita Electrical Industrial Co, Ltd. A South Korean bank purchased

a 27-story office building and an adjacent 5-story garage in the American Banking Center for HK\$56.5 million. Many enterprises with American capital such as American Telephone and Telegraph and Atari have set up offices and have expanded their Hong Kong organizations this year and such large multinational enterprises as Taoshi [phonetic] Chemicals Pacific Company of the United States and the Overseas Machinery Company have continued to expand their investments in Hong Kong. Several countries and regions of Southeast Asia also increased their investments in Hong Kong.

Since 1983, there has been an expansion in the markets for a number of goods and for electronics products in particular because of the recovery in Hong Kong's major markets, Europe and the United States. There has also been an increase in interest in investments in Hong Kong by foreign businessmen. On the basis of statistics from Hong Kong and British authorities, the total number of registered foreign companies in 1983 increased to 1,872, an increase of 10 percent over 1982. Of these, 78 were in the category of diversified industries. The total amount of investment in Hong Kong industries by foreign countries in that year was 7,838 million yuan, an increase of 3.7 percent over 1982, and 541 enterprises were opened, an increase of 55 businesses and of 11.3 percent over 1982. These new enterprises for the most part produce integrated circuit boards and computer components. Some capital has also been invested in electrical equipment, textiles and food products industries. The new investors are largely from the United States, Japan, England, Canada, the Federal Republic of Germany and Italy. According to relevant statistics, there were as many as 500 industrial projects in which foreign businessmen planned to invest in Hong Kong that were handled by the Hong Kong Ministry of Industry and Commerce and that could be actualized. Of these, the United States and Canada accounted for 27 percent, northern Europe and England accounted for 17 percent, continental Europe accounted for 29 percent and Japan, Australia and other regions accounted for 27 percent. Of these projects, 48 can be implemented in the very near future and involve building plants and putting them into operation in Hong Kong. Of these new plants, electronics industries are the most prevalent, accounting for about 30 percent. For the most part, they will manufacture products of a comparatively high scientific and technological level such as small computers, computer components, printed circuit boards and computerized telephone equipment. About one-fourth of these more than 40 projects involve investments by American firms, a reflection of the confidence of American business firms in Hong Kong. In the first 8 months of 1983, more than 10 of the foreign business that had implemented investment in Hong Kong industries had opened with independent capital or had invested in plants under cooperative ventures with Hong Kong businesses.

At the same time, in the first 8 months of 1983, there was an increase over the previous year in the number of inquiries concerning foreign investments on the part of foreign businesses to the overseas offices and the Hong Kong General Headquarters of the Hong Kong and British Ministry of Industry and Commerce. Of these, 24 percent were from the United States and Canada, 17 percent were from Japan, 11 percent were from England and northern

Europe, 16 percent were from continental Europe, 14 percent were from Australia and 18 percent were from other regions. The industries about which inquiries were made were electrical equipment industries accounting for 26 percent, machinery accounting for 7 percent, metals accounting for 6 percent, plastics accounting for 6 percent, chemicals accounting for 5 percent and other industries accounting for 50 percent. In addition, there were also many foreign companies that presented relevant data to the Hong Kong General Council and that sought cooperation with Hong Kong businesses (including joint ventures). Of these, there were five British companies, two American companies, two Danish companies and one company each from Spain, France, Italy, Austria and the Netherlands. They plan to introduce technology and provide specialized technical knowledge, the training of personnel and the required plant equipment to engage in the joint manufacture of new products, after which they will buy back the products. In 1983, there were also many foreign business officials who came to Hong Kong to investigate the investment environment in preparation for investing in Hong Kong. Most recently, high-ranking personnel from four large American electronics companies came to Hong Kong to make an inspection. They plan to make an immense investment in industry in Hong Kong. Three of these companies plan to establish plants under completely independent investment terms.

Next, the confidence of foreign businessmen in investment in Hong Kong is also manifested in optimistic estimates about the future of Hong Kong. Among them, there are many people who are very concerned about the question of the future of Hong Kong. However, at the same time, they believe that the question of its "political future" will not stand in the way of Hong Kong's having a promising "investment future."

(1) There will be a further improvement in the investment environment in Hong Kong in the future and there will be a further modernization of basic facilities. The major measures that the Hong Kong British authorities will adopt in the near future are:

1. Extension of the Kuiyong container docks in order to bring about a further expansion of containerized traffic. Most recently, the Hong Kong British authorities have completed an agreement with the Hong Kong International Carlo Dock Company and the American Sea and Land Joint Transport Company to expand the Hong Kong Kuiying container docks. The expansion plan is to be carried out in three stages. The first stage is to be completed in 3 years and involves an investment of about HK\$655 million (83.9 million yuan) and a landfill of 25.5 metric tons. It is estimated that by 1986 the container dock will be able to handle 2.2 million standard containers a year and that the volume of freight handled will exceed that of New York, second only to Rotterdam and thus in second place in the world. In addition, the completion of a sixth dock is planned by the end of the eighties. Further, not long ago, the American Sea and Land Joint Transport Company and the Far Eastern Group to build the world's largest cargo dock for HK\$1.5 billion in Hong Kong--the Asia (Yazhou) Cargo Dock. Thus, it is clear that containerized transport in Hong Kong will progress in the future at an even more rapid pace.

2. Expansion of the airport and increase in passenger and freight air traffic. The four development projects for the Hong Kong International Airport passenger terminal were completed at the end of 1981. The fifth stage of the development project is now in the active planning stage. One aspect of this plan is to add even better and more advanced facilities to the existing base. At the same time, a new passenger terminal will be built. After work on this passenger terminal has been completed, the number of passengers that the airport passenger terminal can accommodate each year will be increased from 1.2 million persons to 1.8 million persons. This will meet the needs for passenger transport by the end of the eighties. Expansion of the freight terminal building was completed in March, making it the world's largest air freight building and doubling its handling capacity. In addition, Hong Kong British authorities are preparing to build an international heliport in order to expand air transport between Hong Kong and the interior of China and Macao.

3. In recent years, the Hong Kong British authorities have actively expanded the building of industrial villages with the objective of giving precedence to providing them to firms using new technology on land at a low price so that advanced technology can be introduced. At present, close to 40 percent of the industries that have been granted permission to build plants in the industrial villages are plants built with foreign capital. Moreover, they are large-scale advanced enterprises. The establishment of this type of industrial village will also attract foreign capital.

With regard to the prospects after 1997, China has decided to maintain Hong Kong's position as a free port and as an international financial center after Hong Kong has been restored to Chinese sovereignty. When the time comes, the Chinese government and the Hong Kong Special Administrative District will continue to pay attention to attracting foreign capital work, will continue to carry out building capital construction, will bring about further improvement in the Hong Kong investment environment and will encourage foreign businesses to invest in Hong Kong. The further modernization of basic facilities in Hong Kong in the future and the further improvement in Hong Kong's investment environment will be an even greater attractive force for foreign capital.

(2) When sovereignty over Hong Kong is restored to China in 1997, Hong Kong will be established as a special administrative district in accordance with the Chinese constitution in which Hong Kong will be ruled by Hong Kong residents, there will be no change in the socioeconomic system, its position as a free port and an international financial center will be maintained and economic relations between Hong Kong and other nations of the world and relevant international organizations will continue to be developed. This series of general and specific policies will vigorously maintain political and economic stability in Hong Kong in the future. At the same, as more and more Hong Kong Chinese and foreign investors become aware of this, confidence in Hong Kong among foreign investors will be strengthened.

(3) The building of modernization in the Chinese interior and the policy of opening up to the outside that has been adopted will provide advantageous

conditions for the development of Hong Kong's economy and will be a very great attractive force for foreign capital. The reasons for this are as follows: 1. The development of modernization in the interior, on the one hand, requires the importation of advanced technological equipment through Hong Kong as well as the importation of the various necessities of daily life. On the other hand, the continually growing number of products of the interior will have to be transferred for sale abroad through Hong Kong, with the result that Hong Kong's function as a point of transfer will become continually reinforced. Thus, there will be an even greater expansion of transit trade. 2. The supply of cheap production materials such as raw materials, fuel and semifinished materials that the interior provides to Hong Kong will be even more stable and ample so that Hong Kong's industries will be able to develop normally and will be able to take advantage of lower production costs to increase their competitive capacity. 3. As the economy of the interior develops, markets will be expanded. Because Hong Kong will have become a special administrative district of China, there will be even more advantageous conditions for the sale of Hong Kong products in the interior and for the sale of foreign products in the interior via transit through Hong Kong. 4. As our nation's oil fields in the South China Sea are developed, many subsidiary processes and service projects will be carried out in Hong Kong. This will also be an attractive force for foreign capital enterprises.

(4) From the standpoint of international circumstances and on the basis of analyses and estimates by several world-renowned economists, in the 21st century the center of development of the world economy will shift to the Orient. In fact, the rates of development of the economies of some countries and regions of Southeast Asia are now far higher than those of other advanced nations. Thus, in the future, Hong Kong will play an increasingly important role as an international financial center and international trade center. Foreign businesses will be able to use the geographically advantageous conditions of Hong Kong and its basic modernized facilities. Thus, Hong Kong will serve as an important bridge and springboard for the expansion of trade to the Asian Pacific region.

The United States has always been the largest investor of foreign capital in Hong Kong. The American consul general in Hong Kong, Levin, in a recent statement said that American businessmen are extremely optimistic about the future of Hong Kong. He also revealed that there are no American enterprises or other organizations that have left or plan to leave Hong Kong because of the question of the future. Not only is this the case, but the major American financial enterprises in Hong Kong have all stated that they will expand their investments in Hong Kong. Levin also told a delegation of American businessmen that was visiting Hong Kong that he had very great confidence in the future prospects for Hong Kong, that they should not be anxious about the question of Hong Kong's future and that they should set their minds at ease and invest in Hong Kong. In October of last year, Governor Bond of the state of Missouri told reporters in Hong Kong that Hong Kong is a market of very great potential, regardless of whether one is speaking about the present, the coming 14 years or the period after 1997 and

that he would do everything he can to recommend to Missouri businessmen that they invest in Hong Kong. Most recently, the Aikesen (phonetic) Company of the United States invested a very large sum in Hong Kong and will build the Qingshan Power Plant under a joint venture with the Zhonghua Electric Power Company. The closing date of this contract falls after 1997. This is a reflection of the confidence of American businessmen about investing in Hong Kong.

Japanese investment in Hong Kong is still very active and there is a very broad range of activity. On the basis of a survey conducted in July 1982 by the Executive Office of the Japanese Chamber of Commerce and Industry, there are 854 Japanese enterprises that are active in Hong Kong. Of these, the majority are manufacturing industries, accounting for 380 of the enterprises. Of the rest, 106 are financial enterprises, 221 are service enterprises and 147 are trading companies. This is a demonstration of the confidence of Japan in Hong Kong. In mid-December of last year, the Japanese consul general in Hong Kong, Hirokai Fujii, pointed out in his address at the opening of the new Daimaru Department Store building that Hong Kong has already become an important stronghold for the development of the world economy and that more and more Japanese enterprises are considering increasing their investments in Hong Kong. The general manager of the Daimaru Company, Noboru Onogi, also stated that the Hong Kong region has advantageous factors that are incomparable to those of many other regions and that Hong Kong's future, including the period after 1997, will be very bright. He stressed that the Daimaru Company is resolved to undertake long-term expansion in Hong Kong and will cooperate in doing business with the people of Hong Kong on a long-term basis. Some Japanese manufacturing enterprises have most recently decided to build a large industrial building in the New Territories.

The circumstances described in the foregoing text indicate that foreign businessmen have a consistently optimistic attitude toward the so-called "problem of Hong Kong's future" and have full confidence about investing in Hong Kong. As the further modernization of basic facilities proceeds in the future, as there is a further improvement in the investment environment and as the conditions of a free port are brought into further play, Hong Kong will in the future remain a region with a special attractive force for foreign capital and will be an excellent arena for international investment. There will be an even greater expansion of investment of foreign capital in Hong Kong industries and this will have a further strengthening effect on the economy of Hong Kong.

10019
CSO: 4006/719

END